DOCUMENT RESUME

ED 259 661 HE 018 542

TITLE	Mortgaging a Generation: Problems and Prospects of California's Guaranteed Student Loan Program. Commission Report 85-13.
INSTITUTION	California State Postsecondary Education Commission, Sacramento.
PUB DATE	4 Mar 85
NOTE	111p.
AVAILABLE FROM	California State Postsecondary Education Commission, 1020 Twelfth Street, Sacramento, CA 95814.
PUB TYPE	Reports - Descriptive (141) -- Tests/Evaluation Instruments (160)
EDRS PRICE	MF01/PC05 Plus Postage.
DESCRIPTORS	*College Students; Comparative Analysis; *Credit (Finance); Financial Aid Applicants; *Financial Problems; Financial Services; Higher Education; Income; Institutional Characteristics; *Loan Repayment; Money Management; State Aid; Student Characteristics; *Student Loan Programs
IDENTIFIERS	*California Guaranteed Student Loan Program; *Debt (Financial)

ABSTRACT

The California Guaranteed Student Loan Program is described, and information is provided on the characteristics of student borrowers. Attention is also directed to: the effect of students' total accumulated indebtedness on their education and careers; California's default rates compared with those of other states; differences among institutions in default rates; projected future default rates for California; the relationship of default levels and growth rates to loan volume; information about California institutions, lenders, and students with high default rates; and factors related to defaults in California and other states and at the federal level. After outlining the application, in-school, and repayment periods, incentives for growth of the loan program are discussed. The following student characteristics are examined: school attended; size of loans; loan application and acceptance rates; student load and level; sex, age, and ethnicity; parental income/contributions; applicant income/contribution; and loan amounts and debts. Default prevention strategies are recommended for students, colleges, lenders, California Guarantee Agencies, and the federal government. Appendices include a California Guaranteed Student Loan Program application and information about the 1984 California Student Expenses and Resource Survey. (SW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

BEST COPY AVAILABLE

LIFORNIA GUARANTEED STUDENT LOAN PROGRAM

APPLICATION

BEST COPY AVAILABLE

MORTGAGING A GENERATION

PROBLEMS AND PROSPECTS OF CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

California Postsecondary

~~Education Commission~~

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

The California Postsecondary Education Commission was created by the Legislature and the Governor in 1974 as the successor to the California Coordinating Council for Higher Education in order to coordinate and plan for education in California beyond high school. As a state agency, the Commission is responsible for assuring that the State's resources for postsecondary education are utilized effectively and efficiently; for promoting diversity, innovation, and responsiveness to the needs of students and society; and for advising the Legislature and the Governor on statewide educational policy and funding.

The Commission consists of 15 members. Nine represent the general public, with three each appointed by the Speaker of the Assembly, the Senate Rules Committee, and the Governor. The other six represent the major educational systems of the State.

The Commission holds regular public meetings throughout the year at which it takes action on staff studies and adopts positions on legislative proposals affecting postsecondary education. Further information about the Commission, its meetings, its staff, and its other publications may be obtained from the Commission offices at 1020 Twelfth Street, Sacramento, California 95814; telephone (916) 445-7933.

MORTGAGING A GENERATION

Problems and Prospects
of California's Guaranteed Student Loan Program

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
1020 Twelfth Street, Sacramento, California 95814

Commission Report 85-13

Adopted March 4, 1985

CONTENTS

		Page
INTRODUCTION		1
ONE:	CALIFORNIA'S GUARANTEED STUDENT LOAN PROGRAM	3
	Goals and Structure of the Program	3
	Participant Responsibilities	4
	Incentives for Growth	8
	Conclusion	11
TWO:	CHARACTERISTICS OF CALIFORNIA STUDENT BORROWERS	13
	Institution Attended	13
	Size of Loans	13
	Percent of Students Applying for Loans	16
	Acceptance Rate	18
	Student Load and Level	18
	Sex	18
	Age	18
	Ethnicity	20
	Parental Income	21
	Parental Contributions	21
	Applicant Income	23
	Student Constribution	23
	Other Aid	24
	Amount of Loans	25
	Loan Debts	25
	Conclusions	27
THREE:	STUDENT DEBT IN CALIFORNIA	31
	Debt Burdens	31
	Repayment Provisions	35
	Managing Repayment	36
	Credit Eligibility	38
	Steps for Keeping Debt Burdens Manageable	40
FOUR:	LOAN DEFAULT ISSUES IN CALIFORNIA	41
	The Terminology of Default	41
	Default Rates Nationally and in California	43
	Differences Among Institutuions in Default Rates	44
	Default Trends and Projections	45
	Characteristics of California Defaulters	46
	Defaulter Characteristics Nationally and in Other States	51

FIVE: DEFAULT PREVENTION IN CALIFORNIA 55

Student Borrowers 55
Institutions 62
Lenders 64
California Guarantee Agencies 66
The Federal Government 69
Public Policy and Default Prevention 71

SIX: CONCLUSIONS AND RECOMMENDATIONS 73

Distribution of Loans Among the Segments 73
Institutional Licensing and Review 74
Debt Burden and Debt Management 75
Default Prevention 79
Default Recovery 83
Improving the Quality of Information About the Guaranteed Student Loan Program 83
Concluding Comments 84

APPENDICES

A. Senate Bill 34 87

B. California Guaranteed Student Loan Application 91

C. The California Student Expenses and Resources Survey 99

REFERENCES 105

TABLES

		Page
1.	Number and Dollar Value of California Guaranteed Student Loans, 1979-80 Through 1983-84	8
2.	Federal Costs for Guaranteed Student Loans in Millions of Dollars, Fiscal Years 1973 to 1983	10
3.	Number and Dollar Amount of California Guaranteed Student Loans, by Segment, 1978-79 to 1983-84 (Dollars in Thousands)	14
4.	Year-to-Year Percent Change in Number and Dollar Volume of California Guaranteed Student Loans by Segments, 1980-81 to 1983-84 over Previous Year, and Cumulative, 1979-80 Through 1983-84	14
5.	Percent Distribution of California Guaranteed Student Loans and Loan Dollars Among the Segments, 1978-79 Through 1983-84	15
6.	Average California Guaranteed Student Loan by Segment, 1978-79 Through 1983-84	15
7.	Rates of Acceptance for California Guaranteed Student Loans by Segment, Among Students Responding to the 1982-83 California Student Expenses and Resources Survey	17
8.	Student Load of California Guaranteed Student Loan Applicants, 1982-83	19
9.	Student Level of California Guaranteed Student Loan Applicants, 1982-83	19
10.	Sex of California Guaranteed Student Loan Applicants, 1982-83	20
11.	Age of California Guaranteed Student Loan Applicants, 1982-83	20
12.	Ethnicity of California Guaranteed Student Loan Applicants, 1982-83	21
13.	Parental Income of California Guaranteed Student Loan Applicants, 1982-83	22
14.	Parental Contribution to Education of California Guaranteed Student Loan Applicants, 1982-83	22
15.	Total Income of California Guaranteed Student Loan Applicants, 1982-83	23
16.	Contribution to Their Own Education of California Guaranteed Student Loan Applicants, 1982-83	24
17.	California Guaranteed Student Loan Applicants Who Applied for Other Forms of Financial Aid, 1982-83	24
18.	Current-Year Scholarship or Grant Assistance of California Guaranteed Student Loan Applicants, 1982-83	25

19. Amount of Loans From All Sources of California Guaranteed Student Loan Applicants, 1982-83 26

20. Prior Years' Educational Loan Debt of California Guaranteed Student Loan Applicants, 1982-83 26

21. Average Loan Amount of Students Who Borrowed in Each Segment, by Credit Load and Dependency Status, 1982-83 29

22. Average Amount of Financial Support for Full-Time Students in Various Income Categories, by Source of Support, 1982-83 32

23. Guaranteed Student Loan Indebtedness of Currently Enrolled Borrowers and Repayers as of June 30, 1984 33

24. Sample Repayments for a California Guaranteed Student Loan 35

25. Maximum Loan Eligibility and Current and Projected Theoretical Manageable Student Loans for Students Graduating in the Class of 1984 37

26. Maximum Loan Eligibility and Current and Projected Theoretical Manageable Student Loans for Students Graduating in the Class of 1989 37

27. Credit Eligibility for Recent Bachelor's Degree and Master's Degree Recipients 39

28. Default Payments Compared to Other Program Costs, 1983 41

29. Matured Paper, Default Payments, and Gross Default Rates of the Nation's Twelve Largest Guarantee Agencies Through September 30, 1983 43

30. California Guaranteed Student Loan Program Default Statistics by Educational Segment as of September 30, 1983 44

31. Selected Characteristics of California Guaranteed Student Loan Defaulters Categorized by Segment 47

32. Selected Characteristics of California Guaranteed Student Loan Defaulters Categorized by Loan Holder 49

33. Factors Examined in Selected Studies of Guaranteed Student Loan Defaulter Characteristics 53

34. Total California Guaranteed Student Loan Volume and Current Outstanding Loans of the Top 15 Lenders and Secondary Markets in California as of July 31, 1984 65

FIGURES

1. Percent of Full-Time Students in Each Loan Amount Category by Segment, 1982-83 28

2. Percent of Part-Time Students in Each Loan Amount Category by Segment, 1982-83 29

INTRODUCTION

Borrowing has long been an important way for students to finance their postsecondary educations. Long before government loan programs were established, students borrowed from their families and from banks to cover part of their educational costs. But as these costs have increased since the late 1970s, government loans have been the only significant source of increased financial aid available to students.

In California, the Guaranteed Student Loan Program, which provides low-interest loans subsidized by the federal government and guaranteed against default by both the federal and state governments, is now the single largest source of financial aid in the State. Currently, a quarter of a million California students borrow under this program, and their 1983-84 loans totaled over $660 million -- four times the volume only four years earlier.

Despite the magnitude of the Guaranteed Student Loan Program, little is known about the characteristics of its borrowers, the role its loans play in financing students' educations, or the policy implications of students' increasing dependence on borrowed funds. Recently, public attention has begun to focus on student borrowing in general and loan defaults in particular. Legislative concern about these issues led to adoption by the Senate of Senate Resolution 34 (reproduced in Appendix A) and approval of funding in the 1984 Budget Act for the Commission to examine at least seven issues related to student borrowing and defaults:

1. The characteristics of student borrowers, defaulters, and institutions with high default rates;

2. The level and causes of defaults;

3. Responsibilities outlined in federal statutes for determining institutional and student eligibility to participate in loan programs and ways to prevent and recover defaulted loans;

4. The elements of loan costs and who pays them;

5. The role of loans in assisting students to finance their education;

6. Aggregate debt burdens and typical repayment provisions; and

7. The procedures of the California Student Aid Commission for issuing guaranteed student loans and ensuring their repayment.

The Senate instructed the Commission to make recommendations as appropriate in at least the following five areas:

1. Procedures for recovering loan balances that are in default;

2. Changes in State and federal policy and practice related to default recovery and prevention and other issues considered relevant to student financial aid;

3. The appropriate role of student loans in financial aid packages;

4. The appropriate distribution of loans among segments of postsecondary education in California; and

5. Licensing and review procedures for schools that rely heavily on guaranteed student loans and have high default rates.

In this report, the Commission responds to the Senate's request by discussing all of these issues and offering recommendations about them under six major categories:

- the structure and processes of the Guaranteed Student Loan Program (Part One);
- characteristics of borrowers (Part Two);
- student indebtedness, including levels of debts, typical repayment provisions for various levels, and the manageability of debt (Part Three);
- the issue of defaults, including a comparison of current level of Guaranteed Student Loan defaults in California and the nation at large, projected defaults for California, characteristics of students and institutions with high default rates, and causes of these high rates (Part Four);
- current and proposed efforts to prevent defaults (Part Five); and
- conclusions and recommendations (Part Six).

As specified in Senate Resolution 34, this report focuses on student loans; but the Commission notes that, in a parallel report requested under 1984-85 Supplemental Budget Language, it describes California's program of undergraduate grants (1985b), and in an earlier report, it studied the feasibility of establishing a State-funded work-study program (1985a). Consideration of such a program, and of issues related to the State's Cal Grant programs are directly related to the problems of student indebtedness and default discussed in this report, and the Commission recommends that all three reports be considered together as providing a comprehensive examination of student financial aid in California.

ONE

CALIFORNIA'S GUARANTEED STUDENT LOAN PROGRAM

To resolve the issues of excessive debt burdens and high default rates in California's Guaranteed Student Loan Program requires an understanding of the goals, structure, regulations, and growth of the program.

GOALS AND STRUCTURE OF THE PROGRAM

The Guaranteed Student Loan Program is a federal financial aid program intended to provide students with low-interest loans from private lending institutions to help them meet the costs of postsecondary education and broaden their opportunity for choice among educational institutions. It is administered through a partnership of the federal government, the private financial community, and a State guarantee agency or private, non-profit organization designed to serve the guarantee function. In California, the Student Aid Commission acts as this guarantee agency.

Under the program, an eligible student obtains a loan for educational purposes from a bank, credit union, or other financial institution. The federal government guarantees the loan against default through a system of insurance and reinsurance involving the guarantee agency. It also pays the interest on the loan while the student is in school as well as a special allowance subsidy to lenders. Following a grace period ranging from six to twelve months after the student completes or leaves school, the student must begin repaying the loan and is usually allowed five years but no more than ten years to complete repayment.

The amount that a student may borrow is limited to $2,500 annually for undergraduate and $5,000 for graduate or professional students. The agregate permissible loan amounts are $12,500 at the undergraduate level and $25,000 for graduate and professional students. For loans disbursed since October 1, 1981, the minimum required payment is $50 monthly or $600 annually; on loans made previously, the minimum payment is $30 monthly or $360 annually.

In California, the Student Aid Commission administers the program under federal statutory and regulatory guidelines, pays the claims on loans that go into default, and is in turn reinsured against this loss by the federal government. This means that when a student has located a lender, the Commission must review and approve the loan agreement before the loan funds are disbursed. It also means that in the case of students who default on their loans, the Commission must pay the lender all of the principal and interest due on the loan from the Commission's loan reserve fund before being reimbursed for loss by the federal governmentfor the loss.

The federal government encourages the participation of private lenders in the program through two major subsidy programs: First, it pays the fixed interest on the loan (currently 8 percent) while the student is attending

school and during the grace period. Second, it also pays a special allowance quarterly to lenders based on their outstanding principal balance of loans. This allowance, which is set in statute, is designed to cover the difference between the interest subsidy payment and current market investment rates. For example, if the current market interest rate for lenders is 15 percent, the federal government pays the 7 percent difference between this rate and the subsidized interest of 8 percent. The current allowance is the equivalent of a 91-day Treasury Bill yield plus 3.5 percent. Combined, the interest subsidy and the special allowance constitute the bulk of the cost of the program, while loan defaults account for about 20 percent of these costs.

Federal payment of the interest subsidy ceases once the loan repayment is supposed to begin. Thereafter, the borrower repays the principal and the interest at the rate agreed upon when the loan was originated. If the borrower is either unwilling or unable to begin repaying the loan or cannot be found, then a set of procedures known as "due diligence" requirements become effective. In order for lenders to collect the guaranteed reimbursement for loans, they must exercise "due diligence" in attempting to bring the loan into repayment by a series of notifications by mail and telephone that the loan is past due. After a borrower misses two payments, the lender must file a "request for pre-claims assistance" with the Student Aid Commission which makes parallel efforts to bring the loan into repayment. Between 90 and 120 days past due, the lender may file a claim for reimbursement for the loss. Between 120 and 210 days past due, the guarantee agency may purchase the past due loan from the lender, and at the time of this purchase the loan is considered in default.

PARTICIPANT RESPONSIBILITIES

Over the life of the loan, the various participants in the transaction -- lenders, borrowers, State-guarantee agencies, and the federal government -- assume financial burdens and procedural responsibilities that facilitate the financing of students' higher education while allowing a reasonable rate of return on the resources invested in the program. The process may be thought of as occurring in three phases: (1) the application or origination period, (2) the in-school period, and (3) the loan repayment period. At each stage, a number of steps are taken to insure that the loan is made and serviced properly.

Application Period

The application period encompasses the time from loan application to disbursement. After the school's financial aid office determines that loan eligibility is probable and that a loan is desired and needed, the student fills out a Guaranteed Student Loan application (Appendix B) that stipulates the terms and conditions of the loan, including eligibility, loan limits, interest rates, finance charges, and repayment terms. School officials review the student's portion of the application (Part A) for completeness

and accuracy and complete Part B that verifies the student's enrollment, Selective Service registration compliance, academic progress, and previous financial aid obligations. At this point, if Student Aid Commission recommendations are followed, the institution's financial aid counselor discusses with the student the implications and responsibilities associated with receiving the loan and seeks to obtain affirmative answers to the following questions as outlined in the Student Aid Commission's proposed administrative guidelines:

1. Has the student investigated other forms of financial aid such as institutional, federal and State grants, scholarships, or work-study programs?
2. Does the student fully understand that the Guaranteed Student Loan is a long-term financial obiligation that must be repaid with interest and is the student aware of how much loan payments will be when the loan enters repayment?
3. Is the student aware of the finance charges, including origination fees and insurance premiums which will affect the total funds disbursed to the student?
4. Has the student been apprised of the consequences of defaulting on the loans including an adverse credit rating which can adversely affect the borrowers ability to obtain credit in the future?
5. When signing the application and the Promissory Note is the student aware that the student has agreed to the following conditions:
    a. All refunds made by the school will be paid directly to the lender,
    b. The loan funds must be used for educational purposes only,
    c. The borrower must contact the lender within ten days if he/she ceases to be enrolled on at least a half-time basis, fails to enroll in school for the loan period, transfers between institutions, graduates or completes school or has a change of address or name?

The Student Aid Commission considers a complete understanding of these terms and conditions essential for insuring that the student is aware of the kind of agreement being entered into, since both the relative ease and access to the program without the necessity of a prior credit history or a co-signer and the fact that repayment will begin only at some future date following completion of school and a subsequent grace period tend to reduce the student's perception of the loan as a long-term encumberance and obligation with all the attendant fiscal responsibilities.

Having verified the borrower's section of the application and completed Part B, the institution forwards the application to the lender selected on by the student, sometimes with the advice of the institution.

The lender then reviews the application for completeness and eligibility, completes Part C which stipulates the loan amount, disbursement dates, the maturity date, interest rate, and total fee costs, and forwards the application to the Student Aid Commission's processing center for guarantee.

The Commission reviews the application and notifies the lender if the application is accepted or rejected for guarantee. If it is accepted, either the lender or, if prior agreement has been made with the Student Aid Commission, the Commission's processing center issues a promissory note to the borrower. After the borrower signs the promissory note and returns it to the lender, the lender disburses the loan funds through the educational institution, payable either to the borrower or co-payable to the borrower and the institution.

The entire process from submission of a completed application to the disbursement of the loan takes from six to nine weeks. The Student Aid Commission has made efforts to automate this process on a pilot basis in order to reduce the time necessary to disburse funds. This experiment appears to have been successful in cutting delays, but the Legislature has appropriated no funds for continuation or expansion of the pilot project at this time.

In-School Period

During this period, while interest on the loan is paid by the federal government, the student must notify the lender of any change of address or enrollment status. In addition, the California Educational Loan Program (CELP) processing center requires that the school semiannually fill out a Student Status Confirmation Report (SSCR) indicating whether the student is still attending. If the SSCR indicates that the student has left school or is attending less than half time, CELP notifies the lender, and the loan automatically goes into the grace period. At this point, the lender is required to notify the borrower of the terms of repayment.

Unfortunately, students often do not comply with the notification requirements of the loan agreement; they are often unaware of their cumulative debt burden; and lenders have not been required to nofity students of their accumulated indebtedness, although a number of lenders do this on their own initiative. The Student Aid Commission is currently reviewing additional regulations that would require the periodic notification of students with regard to their current debt obligations. The transient nature of student life makes the systematic tracking of students by lenders difficult, but efforts to maintain contact between lenders and students during the in-school period of the loan appear to materially reduce the default rates of students after they leave the educational institution.

Repayment Period

Repayment for a guaranteed student loan usually begins at the end of the six-month grace period after the student borrower leaves school or ceases to be enrolled in school on at least a half-time basis. For the vast majority of borrowers who begin repayment on time and continue to make regular payments

until their debt is retired, no State or lender activity beyond monitoring the repayment process is required. For students who fail to begin repayment or who miss at least two paymnts, a series of administrative responses are initiated: (1) due diligence procedures on the part of the lender; (2) pre-claims -- a joint lender and guarantee-agency effort; and (3) default.

Due Diligence: If a student fails to begin repayment or misses two payments, the lender must initiate a series of notifications by mail and by telephone, starting with a late notice to the borrower within 15 days after the missed due date. If the borrower has not begun or resumed payment within 45 to 60 days after the first late notice, the lender must file a "Request for Pre-claims Collection Assistance" with the Student Aid Commission.

Pre-claims: At the time that the "Request for Pre-claims Collection Assistance" is filed, the lender continues its required efforts to contact the borrower, including a final demand letter sent between 90 and 120 days after the due date. At the same time, the Student Aid Commission sends a warning letter urging the borrower to contact the lender and follows up with at least three attempts to contact the borrower by telephone. If the borrower cannot be contacted, the Student Aid Commission submits his or her name to the Internal Revenue Service (IRS) for "skip-tracing" assistance. The Student Aid Commission also attempts to locate "skips" independent of IRS activities. The lender may file a default claim at any time after it has sent its final demand letter to the borrower.

Default: A loan is considered to be in default when the borrower either (1) fails to make an installment payment when due, (2) fails to establish a repayment schedule, or (3) violates other terms of the loan, such as enrollment requirements. Lenders may file default claims between 90 and 120 days after the pre-claims period has begun and after receiving notice from the Student Aid Commission that such claims for reimbursement should be filed.

Lenders must attach to these claim forms documentation that they have exercised proper procedures, including due diligence, in making and attempting to collect the loan. If the Student Aid Commission determines that they have met all requirements for reimbursement, the Commission pays the unpaid sum of the principal balance and interest from its Guaranteed Student Loan Reserve Fund.

In order to be reimbursed by the federal government, the Commission has had to agree to make all reasonable efforts to collect the loans after it has paid the lenders' claims. During each federal fiscal year, the federal government reimburses state guarantee agencies as follows:

- It will purchase 100 percent of the amount of defaulted loans until the total amount of the defaulted loans purchased reaches 5 percent of the amount of loans that were in repayment at the end of the preceding federal fiscal year.

- Once the amount of defaulted loans purchased reaches 5 percent of the amount of loans that were in repayment, it will purchase 90 percent of the amounts of defaulted loans.

- And when the amount of the defaulted loans reaches 9 percent, will purchase only 80 percent of the amounts of defaulted loans.

The "trigger" default rate is the percent that defaulted loans are of the amount of loans in repayment at the end of the preceding fiscal year. Because California's trigger default rate is projected to be 10.6 percent, the Commission will be eligible for only 80 percent reimbursement on those loans defaulted after the trigger exceed 9 percent, which means that the remaining 20 percent must be paid from its Loan Reserve Fund.

Educational institutions are not direct parties to the loan process. While it is in their interest to keep their loan defaults to a minimum, and while they are often in the best position to help locate delinquent borrowers, they currently offer little pre-claims assistance to students, lenders, or the Student Aid Commission. State privacy laws prevent the disclosure of personal information on students, although in a recent opinion, California's Attorney General stated that it is permissible for institutions to supply the Student Aid Commission with borrowers' addresses and for the Commission to release to institutions the names of students who are delinquent or who have defaulted on guaranteed loans. The Student Aid Commission is currently developing policies and procedures related to the use of this information.

INCENTIVES FOR GROWTH

California's problems of student debt and loan defaults would be small if the Guaranteed Student Loan Program were small, but as Table 1 illustrates, the number and dollar volume of loans under the program have burgeoned over its first five years to a cumulative total of almost one million loans amounting to over $2.6 billion. There is no precedent for such growth in any State-funded student financial aid program and little precedent in any State loan program of any type.

TABLE 1 Number and Dollar Value of California Guaranteed Student Loans, 1979-80 Through 1983-84

Year	Number of Loans	Amount of Loans
1979-80	73,483	$ 168,331,000
1980-81	182,962	469,593,688
1981-82	237,825	654,352,000
1982-83	200,323	550,705,000
1983-84	245,201	663,311,000
TOTAL	939,794	$2,506,293,688

Source: California Student Aid Commission.

This growth has resulted not only from a rapid increase in student charges at California's public and private colleges and universities but also from a number of program changes designed to increase the participation of lenders, state guarantee agencies, and student borrowers. In addition, the decreasing availability of grants and the smaller portion of average costs covered by all kinds of grants, even for those who receive them, have contributed to increased reliance on loans to finance educational costs.

Lender Participation

The federal government has used two principal incentives to encourage lender participation in the Guaranteed Student Loan Program: (1) the guarantee against default, (2) its increased "special allowance."

The Guarantee Against Default: Although a small cost to the federal government compared to the "special allowance," the guarantee against default is a key element of the Guaranteed Student Loan Program. It removes the risk of lending to students with no credit record by guaranteeing that lenders who exercise reasonable diligence in making and attempting to collect loans will be repaid for all Guaranteed Student Loans they make.

The Increased Special Allowance: The original loan program of 1965 provided lenders a return of only 6 percent -- the amount of interest charged to students at the time -- compared to the current 9 percent subsidy. But as market interest rates began to rise, the disparity between the fixed rate of return on Guaranteed Student Loans and the market yield limited lender participation in the program. Therefore, in 1969, the federal goverment agreed to pay lenders an additional amount -- the "special allowance" -- based on the dollar value of the unpaid principal of all eligible student loans they held to insure a competitive yield on student loans.

Initially, this allowance could not exceed 3 percent of the lender's outstanding loan balance. In 1977, however, Congress raised the maximum rate to 5 percent of average unpaid principal balance and in 1978, it eliminated this 5 percent cap. More recent changes have contributed to an escalation of federal expenditures for the program. As Table 2 on page 10 indicates, by 1982 the cost of the program to the federal goverment exceeded $3.2 billion and for 1983 was above $2.8 billion, with the largest increases having occurred in special-allowance payments because of the large gap between interest rates charged students and prevailing market rates.

Nonetheless, lender participation in the program is inextricably tied to the supply of private capital available for guaranteed student loans, and in 1983, the Wharton Applied Research Center concluded in a report for the National Commission on Student Financial Assistance that the special allowance formula should be retained in its current form for the following reasons:

- the administrative costs to lenders are a complex set of variables not amenable to simple explanations;
- changes in the cost allowance could jeopardize the availability of loan capital; and
- the T-bill rate is an adequate index of the cost of capital.

TABLE 2 Federal Costs for Guaranteed Student Loans in Millions of Dollars, Fiscal Years 1973 to 1983

Obligations	1973	1975	1977	1978	1979	1980	1981	1982	1983
In-School Interest	$209	$230	$244	$249	$296	$ 445	$ 629	$1,064	$1,108
Interest Rate Charged to Students	7%	7%	7%	7%	7%	7%	9%	9%	8%
Special Allowance	33	87	106	195	401	820	1,365	1,849	1,258
Total Interst Received by Lenders*	9.5%	9.3%	9.3%	11.1%	13.6%	13.4%	19.5%	13.4%	13.1%
Guarantees and Administrative Expenses	64	189	198	261	302	333	308	384	509
TOTAL	$306	$506	$548	$705	$999	$1,598	$2,344	$3,298	$2,865

* Interest subsidy plus special allowance.

Source: U.S. Department of Education, Office of Student Financial Assistance.

Guarantee Agency Participation

The Higher Education Act Amendments of 1976 encouraged states to assume responsibility for administering federal student loan programs by offering them new incentives and funds. Previously, the federal government had covered only 80 percent of loan defaults with the states assuming responsibility for the other 20 percent. After 1976, federal funds underwrote up to 100 percent of the reinsurance and, in addition, covered higher state administrative costs to aid in collecting on defaults. The federal government also offered loans to guarantee agencies for start-up funding of the agency's loan reserve fund. The California Student Aid Commission has repaid the start-up loan that it received for participating in the program.

Student Eligibility

Originally the Guaranteed Student Loan Program was limited to students from families earning less than $15,000 a year. In 1976, however, Congress raised this income ceiling to $25,000 and then, two years later, removed the ceiling entirely. The tremendous increase in program participation and costs resulting from this 1978 decision led in 1981 to imposition of a "needs test" if a student's family income was over $30,000.

Further increases in student participation resulted from increases in the cumulative amount that students could borrow. Annual borrowing limits remained the same, but the total amount that undergraduates could borrow has increased from $10,000 to $12,500, while the amount for graduate and professional students has grown from $15,000 to $25,000, including undergraduate borrowing.

Since 1981, students have been required to pay an origination fee equal to 5 percent of the principal of their loan. This fee accrues to the federal government in order to help defray the cost of subsidizing loans during the in-school period. Students are also required to pay an insurance premium in the amount of 1 percent of the principal amount of the loan for each year that they are in school plus one year. A student who borrows $2,500 at the beginning of his or her junior year (and plans to finish school in two years) thus actually receives a net loan disbursement of $2,300 -- the $2,500 principal less $125 for the origination fee and $75 for the insurance premium. Proposals at the federal level to increase the origination fee to 10 percent would reduce the borrower's net from the loan to $2,175. In either case, the borrower's repayment is still based on a principal of $2,500 at 8 percent interest. Because of the reduced amount actually available to cover educational costs, the effective interest rate for the loan is actually much higher than 8 percent.

CONCLUSION

The incentives that the federal government has employed to expand lender, state, and student participation in the Guaranteed Student Loan Program have clearly been effective, yet they have just as clearly made the program very costly. Even if no students defaulted on their loans, program costs would run into the billions of dollars simply because of the way market interest rates and overall loan volume drive interest subsidy and special allowance costs.

TWO

CHARACTERISTICS OF CALIFORNIA STUDENT BORROWERS

For the past three years, an average of nearly 228,000 California students have borrowed almost $623 million annually under the Guaranteed Student Loan Program, for an average loan of $2,734 each year. For the first two months of 1984-85, lending activity has been slightly ahead of activity during the same months of 1983-84, and thus it seems likely that 1984-85 will again see over $660 million in borrowing under the program. Tables 3 and 4 on page 12 illustrate the growth of California Guaranteed Student Loan borrowing since 1979-80 -- the program's first full year of implementation in each of California's major segments of postsecondary education. Overall, participation in the program has increased dramatically in the few years since its inception, with the number of loans more than tripling and the dollar volume nearly quadrupling. Most dramatic has been the increased participation since 1979-80 of students in Community Colleges (eight times as many loans, and eleven times as many dollars borrowed) and proprietary schools (ten times as many loans and twelve times as many dollars borrowed).

INSTITUTION ATTENDED

As of 1983-84, over 28 percent of Guaranteed Student Loans were made to students who attended independent colleges and universities, while 25 percent went to proprietary school students. Another 18 percent went to California State University students and 12 percent each were used by Community College and University of California students. The remainder -- about 7 percent -- were used by California students enrolled either outside of California in other states or other countries or in hospital education programs in California.

In terms of dollars borrowed, students who attended independent institutions accounted for almost 24 percent of the total and those in proprietary schools borrowed nearly 28 percent, compared to 17 percent for those at the State University, 12 percent of the University, and 10 percent at Community Colleges. Borrowers attending school outside of California and hospital educational programs accounted for the remaining 8 percent (Table 5).

SIZE OF LOANS

As of 1983-84, the average loan for University of California students was nearly $2,900, for State University students $2,500, for Community College students $2,200, for independent college students nearly $3,300, for proprietary school students just over $2,400, and for other students $2,970. The overall average loan was $2,705, compared to $2,447 in 1978-79 and $2,291 in 1979-80 (Table 6).

TABLE 3 Number and Dollar Amount in Thousands of California Guaranteed Student Loans, by Segment, 1978-79 Through 1983-84

Segment	1978-79 #	1978-79 $	1979-80 #	1979-80 $	1980-81 #	1980-81 $	1981-32 #	1981-32 $	1982-83 #	1982-83 $	1983-84 #	1983-84 $
California Community Colleges	5	$ 7	3,586	$ 5,961	26,680	$ 55,083	38,625	$ 90,382	32,415	$ 72,074	29,960	$ 65,984
The California State University	29	63	17,827	33,049	45,776	105,273	51,506	130,800	37,309	95,583	44,933	112,347
University of California	13	38	13,582	28,361	30,111	78,602	36,071	104,157	24,431	70,311	27,416	79,436
Independent Institutions	46	135	26,777	73,339	50,848	154,785	58,434	190,837	48,458	160,820	57,889	190,964
Proprietary Schools	24	48	6,316	13,112	18,587	44,570	35,307	85,686	40,969	101,996	67,303	162,600
Other	6	10	5,395	14,509	10,960	31,281	17,832	52,390	16,741	49,921	17,500	51,980
TOTAL	123	$301	73,483	$168,331	182,962	$469,594	237,825	$654,352	200,323	$550,705	245,201	$663,311

Source: California Student Aid Commission, September 1984.

TABLE 4 Year-to-Year Percent Change in Number and Dollar Volume of California Guaranteed Student Loans by Segments, 1980-81 to 1983-84 over Previous Year, and Cumulative, 1979-80 Through 1983-84

Segment	1980-81 #	1980-81 $	1981-82 #	1981-82 $	1982-83 #	1982-83 $	1983-84 #	1983-84 $	Cumulative #	Cumulative $
California Community Colleges	644%	824%	45%	64%	-16%	-20%	- 8%	- 8%	735%	504%
The California State University	157	219	13	24	-28	-27	20	17	152	240
University of California	122	177	20	33	-32	-32	12	13	102	180
Independent Institutions	90	111	15	23	-17	-16	19	19	116	160
Proprietary Schools	194	240	90	92	16	19	65	59	969	1,140
Other	103	116	62	67	- 6	- 5	4	4	224	258
TOTAL	149%	179%	29%	39%	-16%	-16%	22%	20%	234%	294%

Note: 1979-80 is used as the base year for measuring subsequent changes, since it was the first full year of the program's operation in California.

= Percent change in number of loans.
$ = Percent change in dollar volume of loans.

Source: California Postsecondary Education Commission, from California Student Aid Commission data.

BEST COPY AVAILABLE

BEST COPY AVAILABLE

TABLE 5 Percent Distribution of California Guaranteed Student Loans and Loan Dollars Among the Segments, 1978-79 Through 1983-84

Segment	1978-79		1979-80		1980-81		1981-82		1982-83		1983-84	
	#	$	#	$	#	$	#	$	#	$	#	$
California Community Colleges	41.1%	2.3%	4.9%	3.5%	14.6%	11.7%	16.3%	13.8%	16.2%	13.1%	12.2%	9.9%
The California State University	23.6	20.9	24.6	19.6	25.0	22.4	21.7	20.0	18.6	17.4	18.3	16.9
University of California	10.6	12.6	18.5	16.8	16.5	16.7	15.2	15.9	12.2	12.8	11.2	12.0
Independent Institutions	37.4	44.9	36.4	43.6	27.8	33.0	24.6	29.2	24.2	29.2	23.6	28.8
Proprietary Schools	19.5	15.9	8.6	7.8	10.2	9.5	14.8	13.1	20.5	18.3	27.5	24.5
Other	4.9	3.3	7.3	8.6	5.9	6.6	7.5	8.0	8.4	9.1	7.1	7.8
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

= Percent change in number of loans.
$ = Percent change in dollar volume of loans

Source: California Postsecondary Education Commission, from California Student Aid Commission data.

TABLE 6 Average California Guaranteed Student Loan by Segment, 1978-79 Through 1983-84

Segment	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
California Community Colleges	$1,400	$1,662	$2,065	$2,337	$2,223	$2,202
The California State University	2,172	1,854	2,300	2,540	2,562	2,500
University of California	2,923	2,088	2,610	2,888	2,878	2,897
Independent Institutions	2,934	2,739	3,044	3,268	3,319	3,299
Proprietary Schools	2,000	2,076	2,398	2,427	2,490	2,409
Other	1,666	2,689	2,854	2,938	2,982	2,970
TOTAL	$2,447	$2,291	$2,567	$2,751	$2,749	$2,705

Source: California Postsecondary Education Commission, from California Student Aid Commission data.

Average loans of over $2,500 for students enrolled in the University, independent colleges, hospital schools, and institutions outside of California suggest that significant numbers of graduate students are attending these institutions and borrowing something between the $2,500 maximum allowed for undergraduates and the $5,000 that graduate students may borrow.

The 400 or so students studying outside the country are probably almost all graduate or professional students, based on their average loan of about $4,500. In contrast, average loans at Community Colleges and proprietary schools, which do not enroll graduate students, are less -- $2,202 and $2,409, respectively -- and vary little, despite substantial differences in Community College and proprietary school costs.

The increased dependence of students in all segments on borrowing over the past six years is illustrated in each of Tables 3 through 6. Nearly a quarter of a million California students borrowed to finance their education in 1983-84 -- more than three times the number who did only four years earlier. Furthermore, they borrowed nearly 20 percent more (over $400) than they did four years previously. Among the five segments whose students account for the vast majority of loans, different patterns of loan dependence have developed between 1979-80 and 1983-84. Students in the three public segments increased the dollar amount of their borrowing between 32 and 39 percent, while those at proprietary and independent institutions increased their amount only 16 and 20 percent, respectively. State University and University students borrowed approximately $700 to $800 more, respectively, than they did in 1979-80; Community College and independent college students borrowed around $550 more; and proprietary students borrowed only $333 more. In all segments, the size of the average loan has remained relatively stable since 1981-82.

PERCENT OF STUDENTS APPLYING FOR LOANS

Large differences exist among California's segments in the percentage of their students who apply for loans. According to the most recent California Student Expenses and Resources Survey of the Student Aid Commission, a high of 54 percent of the proprietary school students appplied, followed by 40 percent of students at independent colleges and universities, 30 percent of students at the University of California, 19 percent of those at the California State University, and 5 percent at the Community Colleges (second column, Table 7). These differences can be explained in part by the substantial differences in the average cost of attendance in the five segments, and in the case of proprietary schools, the somewhat more restricted availability of grant funds.*

*This discussion and that on the following pages is based largely on information reported in the 1982-83 Student Expense and Resource Survey conducted

TABLE 7 Rates of Acceptance for California Guaranteed Student Loans by Segment, Among Students Responding to the 1982-83 California Student Expenses and Resources Survey

Segment	Sample Who Applied for Loans		Applicants Who Received Loans*	
	Number	Percent	Number	Percent
California Community Colleges (N = 5,411)	280	5.2%	178	76.1%
The California State University (N = 5,766)	1,071	18.6	782	82.6
University of California (N = 5,552)	1,671	30.1	1,314	87.4
Independent Institutions (N = 4,438)	1,783	40.2	1,404	90.0
Proprietary Schools (N = 2,143)	1,153	53.8	907	87.7
TOTAL (N = 23,265)	5,959	25.6%	4,585	86.9%

*These numbers and percentages represent only those who applied and had heard whether or not they received loans.

Note: Unweighted survey results; not reflective of the total enrollment or the number of loan applicants and recipients in each segment.

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

---

by the Student Aid Commission. (Appendix C, excerpted from the Commission's 1984 report, Meeting the Costs of Attending College, discusses the survey, its utility for policy analysis, and the limitations of the data derived from it.) The number of respondents indicated in the tables on the following pages reflects the number of students who actually completed the SEARS survey instrument and have not been weighted to reflect total enrollment or the number of GSL applicants and recipients in the segments. (The total numbers in the tables vary because of differences in the number of unknown responses to individual questions.)

ACCEPTANCE RATE

Participation in the Guaranteed Student Loan Program is possible almost regardless of segment of attendance. As the right-hand column of Table 7 shows, nearly 87 percent of all students applying for loans received them, including 90 percent of students at independent institutions, 87 percent at the University at California and proprietary institutions, 82 percent at the State University, and 76 percent at Community Colleges.

The California Student Aid Commission guarantees about 95 percent of all the loan applications it receives. The 8 percentage-point differences between this rate and the 87 percent acceptance rate results from a variety of factors, including student borrowers deciding not to return to school or finding other sources of funds, as well as lenders' policies.

STUDENT LOAD AND LEVEL

In 1982-83, one-fourth of the students responding to the Student Expenses and Resources Survey applied for Guaranteed Student Loans. Close to one-third of all full-time undergraduates did so, compared to less than 10 percent of half-time undergraduates and 2 percent of less-than-half-time undergraduates. This latter group group is not eligible to borrow under the Guaranteed Student Loan program (Table 8).

A higher percentage of graduate students -- nearly 26 percent -- applied for loans than any other level of student, followed by 25 percent of seniors, nearly 23 percent of freshmen, 22 percent of juniors, and nearly 20 percent of sophomores (Table 9). In the past, freshmen had problems obtaining loans, but this is no longer the case, with nearly the same percentage of those applying receiving loans as among all applicants.

SEX

The percentage of men and women in the sample who applied for Guaranteed Student Loans was essentially the same -- 25.6 and 25.5, respectively -- although women were slightly more successful than men in obtaining loans -- 87.9 percent, compared to 85.6 percent (Table 10).

AGE

As can be seen from Table 11, nearly 27 percent of applicants were under 20 years old, while nearly 60 percent were between 20 and 29 years old, and only 9 percent were over 40. The proportion of older students applying

TABLE 8 Student Load of California Guaranteed Student Loan Applicants, 1982-83

Student Load	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Full-Time Undergraduate (N = 13,307)	4,158	31.3%	3,135	86.0%
Half-Time Undergraduate (N = 2,724)	261	9.6	175	79.6
Part-Time Undergraduate (N = 1,631)	28	1.7	15	57.7
Graduate (N = 4,823)	1,248	25.8	1,038	91.7
Noncredit (N = 677)	225	33.2	178	88.1
TOTAL (N = 23,162)	5,915	25.5%	4,542	86.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

TABLE 9 Student Level of California Guaranteed Student Loan Applicants, 1982-83

Student Level	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Freshmen (N = 5,701)	1,298	22.8%	1,127	86.8%
Sophomore (N = 3,927)	778	19.8	638	82.0
Junior (N = 4,155)	932	22.4	788	84.5
Senior (N = 3,549)	892	25.1	777	87.1
Fifth Year (N = 1,730)	262	15.1	230	87.8
Graduate (N = 4,281)	1,104	25.8	1,017	92.1
TOTAL (N = 23,343)	5,266	22.6%	4,577	86.9%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

TABLE 10 Sex of California Guaranteed Student Loan Applicants, 1982-83

Sex	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Women (N = 13,332)	3,401	25.5%	2,649	87.9%
Men (N = 9,978)	2,558	25.6	1,924	85.6
TOTAL (N = 23,310)	5,959	25.6%	4,573	87.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

TABLE 11 Age of California Guaranteed Student Loan Applicants, 1982-83

Age Group	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Under 20 (N = 4,485)	1,194	26.6%	873	84.1%
20 to 24 (N = 9,228)	2,737	29.7	2,077	86.0
25 to 29 (N = 4,120)	1,174	28.5	947	90.8
30 to 39 (N = 3,524)	682	19.4	550	89.3
40 Plus (N = 2,049)	184	8.9	135	83.3
TOTAL (N = 23,406)	5,972	25.5%	4,582	86.9%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

differs considerably by segment, with 21 percent of the 40-year old or older Community College students applying, compared with 7 percent at the State University, 6 percent at independent and proprietary institutions, and 2 percent at the University -- possibly reflecting limited availability of other kinds of aid for nontraditional students attending the Community Colleges.

ETHNICITY

Wide variation exists in the percentage of students from different ethnic backgrounds applying for loans (Table 12). Over half of Black students applied, compared with approximately three-eighths of Hispanic students and about one-fourth of white and Asian students. All groups had virtually similar acceptance rates, however, with only a 2 percentage-point difference separating the white students at 87.3 percent and Black students at 85.3.

TABLE 12 Ethnicity of California Guaranteed Student Loan Applicants, 1982-83

Ethnic Group	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Asian or Pacific Islander (N = 1,898)	504	26.6%	392	86.3%
Black (N = 739)	392	53.0	295	85.3
Hispanic (N = 1,285)	494	38.4	394	87.0
White (N = 16,271)	4,125	25.4	1,242	87.3
Other (N = 961)	315	32.8	246	84.5
TOTAL (N = 21,154)	5,831	27.6%	4,569	86.9%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

PARENTAL INCOME

Fifty-six percent of financially dependent students who applied for Guaranteed Student Loans had parents with incomes under $12,000, compared to only 16 percent whose parents made over $60,000. As can be seen from Table 13, the percentage of dependent students who apply for loans drops consistently as family income increases.

With the recent federal income ceiling for subsidized loans set at $30,000, students from families with incomes above this level had to demonstrate financial need in order to obtain their loans. Although 81 percent of these students did obtain them, a lower percentage of students who applied from families with incomes over $30,000 were able to obtain loans, undoubtedly because they did not show financial need.

Among financially independent or self-supporting students, 24 percent applied for loans, and 89 percent received them.

PARENTAL CONTRIBUTIONS

Half of the loan applicants -- both financially dependent and independent students -- reported receiving no financial assistance from their parents for educational expenses (Table 14), with these expenses defined as tuition and fees, books and supplies, board and room away from home during the academic year, transportation to and from campus, and other expenses necessary for attendance. The other half were divided equally between those receiving

TABLE 13 Parental Income of California Guaranteed Student Loan Applicants, 1982-83

Income Level	Sample Who Applied for Loans		Applicants Who Received Loans	
	Number	Percent	Number	Percent
Under $12,000 (N = 1,510)	839	55.6%	674	89.6%
$12,000-$23,999 (N = 2,239)	961	42.9	774	91.1
$24,000-$35,999 (N = 2,827)	948	33.5	756	88.9
$36,000-$47,999 (N = 1,620)	530	32.0	401	82.5
$48,000-$59,000 (N = 1,267)	376	29.7	274	79.0
$60,000 or More (N = 2,014)	33	16.4	222	72.1
Independent Students (N = 8,090)	1,962	24.3%	1,561	89.3%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

TABLE 14 Parental Contribution to Education of California Guaranteed Student Loan Applicants, 1982-83

Amount	Applicants Who Received Loans		Applicants Who Did Not Receive Loans		Total Applicants	
	Number	Percent	Number	Percent	Number	Percent
Nothing	2,343	44.7%	270	5.2%	2,613	49.9%
Under $225	302	5.8	42	0.8	344	6.6
$225 - $449	215	4.1	32	0.6	247	4.7
$450 - $899	304	5.8	28	0.5	332	6.3
$900 - $1,799	338	6.4	53	1.0	391	7.5
$1,800 - $2,699	242	4.6	50	1.0	292	5.6
$2,700 - $4,499	292	5.6	71	1.4	363	6.9
$4,500 - $6,749	197	3.8	55	1.0	252	4.8
$6,750 - $8,999	125	2.4	27	0.5	152	2.9
$9,000 Plus	203	3.9	52	1.0	255	4.9
TOTAL	4,561	87.0%	630	13.0%	5,241	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

less than $1,800 from their parents and those receiving more. The students receiving any aid from their parents differed greatly by segment, ranging from a low of only 24 percent at Community Colleges to 42 percent at proprietary schools, 47 percent at the California State University, 60 percent at independent institutions, and 62 percent at the University of California.

APPLICANT INCOME

Eleven percent of the applicants (or their spouses, if married) had no taxable income in the 1982-83 academic year, while 56 percent earned under $6,000, and the remaining 34 percent earned over $6,000 (Table 15). Five percent of the applicants earned $24,000 or more, and 2.6 percent earned over $32,000.

TABLE 15 Total Income of California Guaranteed Student Loan Applicants, 1982-83

Amount	Applicants Who Received Loans		Applicants Who Did Not Receive Loans		Total Applicants	
	Number	Percent	Number	Percent	Number	Percent
Nothing	476	9.0%	79	1.5%	555	10.5%
Under $1,000	326	6.2	51	1.0	377	7.1
$1,000 - $1,999	709	13.4	102	1.9	811	15.4
$2,000 - $2,999	504	9.6	80	1.5	584	11.1
$3,000 - $5,999	1,020	19.3	153	2.9	1,173	22.2
$6,000 - $11,999	843	16.0	117	2.2	960	18.2
$12,000 - $17,999	284	5.4	38	0.7	322	6.1
$18,000 - $23,999	198	3.8	18	0.3	216	4.1
$24,000 - $31,999	121	2.3	18	0.3	139	2.6
$32,000 or More	104	2.0	34	0.6	138	2.6
TOTAL	4,585	86.9%	690	13.1%	5,275	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

STUDENT CONTRIBUTION

As Table 16 shows, nearly 11 percent of the applicants made no direct financial contribution to their educational expenses, but 56 percent paid up to $2,700, and the remaining 34 percent paid more.

TABLE 16 Contribution to Their Own Education of California Guaranteed Student Loan Applicants, 1982-83

Amount	Applicants Who Received Loans		Applicants Who Did Not Receive Loans		Total Applicants	
	Number	Percent	Number	Percent	Number	Percent
Nothing	484	9.2%	70	1.3%	554	10.6%
Under $225	273	5.2	42	0.8	315	6.0
$225 - $449	356	6.8	73	1.4	429	8.2
$450 - $899	568	10.8	78	1.5	646	12.3
$900 - $1,799	761	14.5	116	2.2	877	16.7
$1,800 - $2,699	567	10.8	77	1.5	644	12.3
$2,700 - $4,499	627	12.0	95	1.8	722	13.8
$4,500 - $6,749	409	7.8	55	1.1	464	8.9
$6,750 - $8,999	171	3.3	26	0.5	197	3.8
$9,000 Plus	339	6.5	51	1.0	390	7.4
TOTAL	4,555	87.0%	683	13.0%	5,238	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

OTHER AID

Over half of the applicants applied for other forms of financial aid beyond Guaranteed Student Loans (Table 17). Fifty-seven percent applied for, and

TABLE 17 California Guaranteed Student Loan Applicants Who Applied for Other Forms of Financial Aid, 1982-83

Status	Applicants Who Applied for Pell Grants		Applicants Who Applied for Cal Grants		Applicants Who Applied for Institutional Aid	
	Number	Percent	Number	Percent	Number	Percent
Applied for Other Aid	2,779	52.9%	2,310	43.9%	2,967	56.5%
Received Other Aid	1,439	27.4	998	19.0	2,004	38.1
Had Not Heard	177	3.4	187	3.6	144	2.7

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

38 percent received some form of institutional financial aid, as did 53 and 27 percent for federal Pell Grants and 44 and 19 percent for Cal Grants. As Table 18 shows, 63 percent of all applicants received scholarship or grant assistance. Sixteen percent received less than $1,000: 27 percent, between $1,000 and $2,000; and 20 percent, more than $3,000.

TABLE 18 Current-Year Scholarship or Grant Assistance of California Guaranteed Student Loan Applicants, 1982-83

Amount	Number	Percent
Nothing	1,941	37.0%
Under $200	152	2.9
$200 - $499	231	4.4
$500 - $999	456	8.7
$1,000 - $1,999	877	16.7
$2,000 - $2,999	560	10.7
$3,000 - $3,999	377	7.2
$4,000 - $5,999	377	7.2
$6,000 - $7,999	184	3.5
$8,000 or More	89	1.7
TOTAL	5,244	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

AMOUNT OF LOANS

Although 13 percent of the students who applied for Guaranteed Student Loans were unsuccessful in obtaining them, only 8 percent reported receiving no educational loans from any source (Table 19). Twenty-two percent borrowed up to $2,000; 40 percent borrowed between $2,000 and $3,000; 30 percent borrowed $3,000 or more; and 3 percent borrowed $8,000 or more.

LOAN DEBTS

Thirty-eight percent of the Guaranteed Student Loan applicants had no educational loan debts from prior years, but the remaining 62 percent were already indebted -- 14 percent for under $2,000, 31 percent from $2,000 to $6,000, 9 percent from $6,000 to $10,000, and another 9 percent for $10,000 or more (Table 20).

TABLE 19 *Amount of Loans From All Sources of California Guaranteed Student Loan Applicants, 1982-83*

Amount	Number	Percent
Nothing	443	8.4%
Under $200	78	1.5
$200 - $499	134	2.5
$500 - $999	183	3.5
$1,000 - $1,999	753	14.3
$2,000 - $2,999	2,119	40.3
$3,000 - $3,999	462	8.8
$4,000 - $5,999	718	13.6
$6,000 - $7,999	212	4.0
$8,000 or More	162	3.1
TOTAL	5,264	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

TABLE 20 *Prior Years' Educational Loan Debt of California Guaranteed Student Loan Applicants, 1982-83*

Amount	Number	Percent
Nothing	1,975	37.6%
Under $500	178	3.4
$500 - $999	133	2.5
$1,000 - $1,499	179	3.4
$1,500 - $1,999	224	4.3
$2,000 - $3,999	958	18.2
$4,000 - $5,999	666	12.7
$6,000 - $7,999	318	6.0
$8,000 - $9,999	148	2.8
$10,000 or More	479	9.1
TOTAL	5,258	100.0%

Source: 1982-83 California Student Expenses and Resources Survey, California Student Aid Commission.

CONCLUSIONS

Several facts stand out as particularly noteworthy from these data gathered by the California Student Aid Commission:

First, very little loan discrimination appears to exist against any group of students. The only exceptions of any magnitude to the overall 87 percent acceptance rate for Guaranteed Student Loan applicants were two: (1) half-time undergraduates -- only 80 percent of whom obtained loans, compared to 86 percent of full-time undergraduate and 92 percent of graduate students -- and (2) Community College students, whose acceptance rate was only 76 percent, compared to 90 and 88 percent, respectively, of independent and proprietary institution students. The reasons for this latter difference are unclear, since lender policies are less restrictive for Community College students than for proprietary school students. One reason may be that Community College students require smaller loans than other students and these loans are less attractive to lenders, since small loans are just as costly to administer as large loans. Small loans also lower the lender's average indebtedness figure that is taken into consideration when the lender sells student-loan portfolios to the secondary market. Another likely reason is that at the time of the 1982-83 survey, one of California's largest lenders had temporarily stopped making loans to students at certain Community Colleges because of the high default rates among their students.

Second, the percentage of students applying for Guaranteed Student Loans differs substantially among the segments -- from 54 percent at California's proprietary schools and 40 percent at independent institutions down to 30 percent at the University of California, 19 percent at the State University, and 5 percent at the Community Colleges. The reason, of course, is that proprietary and independent institutions charge students a higher amount than do public institutions.

Third, approximately 40 percent of the students attending independent institutions and the University of California receive no parental financial support for their education -- despite the fact that many students in these two segments often come from affluent families. Some of these families may be using Guaranteed Student Loans to replace their own financial assistance for their children's education. Alternatively, many of the borrowers in these institutions are self-supporting graduate students and thus would not be expected to receive parental support.

Fourth, less than one-fourth of California's postbaccalaureate students apply for Guaranteed Student Loans -- a much lower percentage than in some other states such as New York, where 61 percent apply. In recent years, some legislators have advocated raising fees for graduate and professional students in California's public universities. If this should occur, the demand for Guaranteed Student Loans among California's graduate students would increase considerably and would, in turn, increase student debt levels.

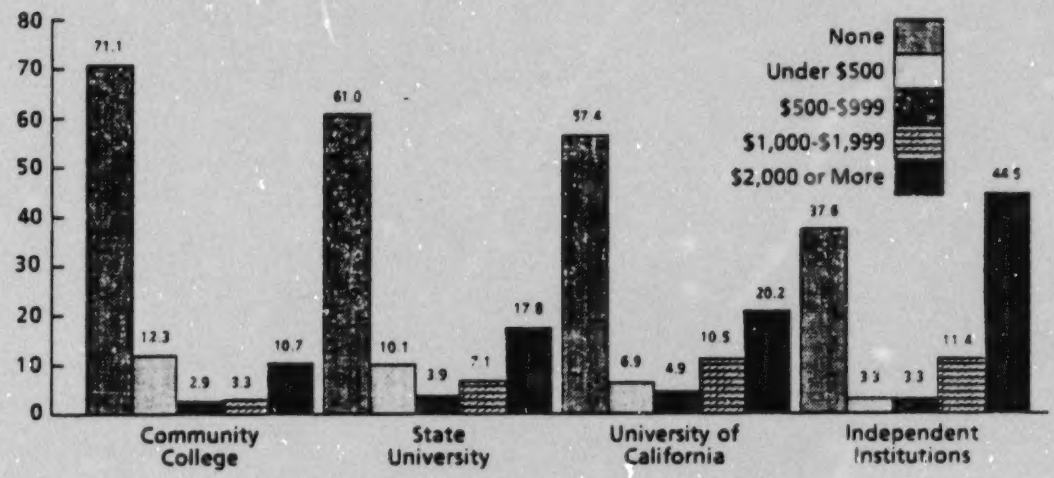
Finally, and perhaps most significantly, nearly one-fourth of California's freshmen apply for Guaranteed Student Loans -- virtually the same fraction as master's degree and doctoral students. If these freshmen find it necessary

to continue to borrow through all four years of college, they will graduate with very high debt levels -- the topic of the next section of this report.

Figures 1 and 2 provide information on the percent of undergraduate students in various loan-amount categories for each segment for full-time students and part-time students. In both cases, as the overall cost of attendance increases, so does the dependence on loans. For example, while over 70 percent of full-time Community College students had no loans, only 38 percent of full-time independent institution students did not borrow. Over four times as many full-time independent institution students borrowed $2,000 as did full-time Community College students.

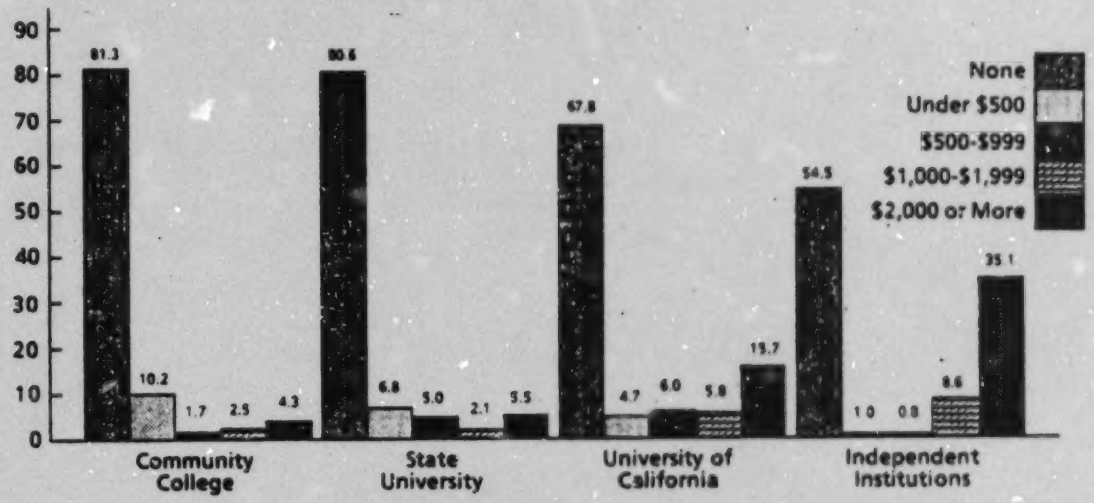
For part-time students, the pattern of increasing use of loans as the overall cost of attendance is also apparent; although overall a smaller proportion of part-time students in each segment borrowed than did full-time students. Again, independent institution part-time students were significantly more dependent on loans than were part-time students in the three public segments. Only one in five Community College and State University students and one in three University of California part-time students borrowed, compared to nearly half of the independent institution part-time students. Furthermore, over three-quarters of the independent institution students who borrowed in 1982-83 borrowed more than $2,000, compared to less than half of the University's part-time borrowers and only about a quarter of State University and Community College borrowers.

FIGURE 1 Percent of Full-Time Students in Each Loan Amount Category by Segment, 1982-83



Source: California Postsecondary Education Commission Weights, Student Expenses and Resources Survey.

FIGURE 2 Percent of Part-Time Students in Each Loan Amount Category by Segment, 1982-83



Source: California Postsecondary Education Commission Weights, Student Expenses and Resources Survey.

Table 21 provides information on average loan amounts of students who borrowed in 1982-83. For that single year, these amounts ranged from nearly $1,400 for dependent part-time State University students to $3,600 for dependent part-time students at independent institutions.

TABLE 21 Average Loan Amount of Undergraduate Students Who Borrowed in Each Segment, by Credit Load and Dependency Status, 1982-83

Segment	Full-time		Part-Time	
	Dependent	Independent	Dependent	Independent
California Community Colleges	$1,376	$1,684	$ 750	$1,753
The California State University	1,558	2,096	1,183	1,750
University of California	1,821	2,346	1,619	2,169
Independent Institutions	2,500	3,300	3,600	3,025

Source: California Postsecondary Education Commission from California Student Aid Commission Student Expense and Resources Survey.

The implications of these amounts for students who may have to borrow more than once, or even throughout their college careers are serious. For example, a full-time Community College student who uses loans to finance a two-year program could be faced with as much as $3,400 in indebtedness. If that student plans to continue his or her schooling, that indebtedness could increase another $3,000 to $6,600 and, assuming completion of the baccalaureate in four years, could total $6,400 to $10,000.

Although part-time students' average loans are somewhat smaller than those of full-time students, they could face even greater loan obligations at the end of a program than a full-time student. For example, a student who attends three-quarters time would need an extra half year to complete a two-year program and would require at least five years to complete the requirements for a baccalaureate degree. Thus, a part-time Community College student in a two-year program could still be faced with $2,000 to $4,000 in loan obligations, while a student who completes his or her education on a part-time basis at a four-year institution could be faced with an additional loan obligation of anywhere from $3,000 to $9,000, depending on the type of four-year institution attended.

THREE

STUDENT DEBT IN CALIFORNIA

Clearly, California students are willing to go into debt in order to finance their educations, and loans have become an increasingly important source of this financing. Nonetheless, the increasing use of borrowing by some students to finance their educations raises questions about the total accumulated indebtedness of students and the effects it has on their ability to continue their education, choose among career options, and participate fully in California's economy.

DEBT BURDENS

The Commission's 1984 report, Meeting the Costs of Attending College, examined the relationship of the four major sources of support for students attending college: parental contributions, student contributions (from work earnings and savings), financial aid grants, and loans. Table 22 illustrates the average amount of financial support from each of these sources for three categories of full-time dependent students and the largest category of full-time independent students. For all of these students, it is clear that as the costs of education increase, the dollar amount borrowed increases of the full-time students who depend on support from their families, the dependency on loans decreases as family income rises. This is because the resources available from the poorest of these students and their parents, even when supplemented by grant aid, still leave a 15-20 percent gap between costs and resources. Even so, on the average, dependent students in all income categories appear to maximize their use of non-loan resources to finance their educations. Independent students with incomes under $12,000 are somewhat more dependent on loans, with loans making up 22 to 30 percent of their resources. Finally, it does not appear that loans are the primary source for covering the choice of a higher-cost institution. For the lowest-income dependent student, the single largest resource for financing the cost differential between any two segments is grant aid. For middle-income students, it is parents (at the University and State University) and grants (at independent colleges), and for the highest-income students, parents provide the additional resources to attend a higher-cost institution. Even for independent students, except for those who choose the State University over a Community College, grant aid, not loan aid, covered the majority of the additional costs in 1982-83. For those State University students, loans were the single largest source of funds to cover their higher costs. With the growing use of loans, increasing costs of education, and the declining ability of grants to cover those costs, the picture just described may be changing. Nonetheless, it appears that, on the average, students, their families, and institutional aid administrators are attempting to keep indebtedness down by making maximum use of other funding sources to cover the costs of education.

TABLE 22 Average Amount of Financial Support for Full-Time Students in Various Income Categories, by Source of Support, 1982-83

Category of Students	California Community Colleges		The California State University		University of California		Independent Colleges and Universities	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
FINANCIALLY DEPENDENT STUDENTS*								
Family Income Under $12,000								
Loan	$ 444	14.7%	$ 846	19.1%	$ 990	15.9%	$ 1,963	21.2%
Grant	697	23.1	1,246	28.1	2,385	38.3	3,974	42.8
Parent	739	24.5	688	15.5	1,040	16.7	1,658	17.9
Student	1,137	37.7	1,649	37.2	1,812	29.1	1,682	18.1
Total	$3,017		$4,429		$6,227		$ 9,277	
Family Income Between $24,000 and $35,999								
Loan	$ 404	15.4%	$ 558	13.8%	$ 782	13.5%	$ 1,833	18.4%
Grant	73	2.8	253	6.2	622	10.7	2,982	29.9
Parent	944	35.9	1,652	40.7	2,546	43.9	3,316	33.3
Student	1,206	45.9	1,591	39.2	1,851	31.9	1,835	18.4
Total	$2,627		$4,054		$5,801		$ 9,966	
Family Income Over $60,000								
Loan	$ 134	4.5%	$ 240	5.0%	$ 373	5.9%	$ 924	8.7%
Grant	9	0.3	49	1.0	112	1.8	518	4.9
Parent	2,019	67.7	3,285	67.8	4,450	70.4	7,740	72.8
Student	820	27.5	1,273	26.3	1,390	22.0	1,452	13.7
Total	$2,982		$4,847		$6,325		$10,634	
FINANCIALLY INDEPENDENT STUDENTS*								
Student Income Under $12,000								
Loan	$ 949	22.2	$1,447	27.1%	$1,990	30.2%	$ 2,898	28.2%
Grant	700	16.4	1,071	20.1	1,857	28.1	3,824	37.2
Parent	269	6.3	207	3.9	244	3.7	314	3.1
Student	2,358	55.1	2,608	48.9	2,509	38.0	3,234	31.5
Total	$4,276		$5,333		$6,600		$10,270	

*Using federal definition of dependence.

Source: California Postsecondary Education Commission Weights, Student Expenses and Resources Survey.

Currently available data do not permit accurate determination of the actual cumulative debt burdens for Guaranteed Student Loan borrowers in California. Data from the tables on page 24 show that 40 percent of the Guaranteed Student Loan applicants who responded to the 1982-83 Student Expenses and Resources Survey borrowed between $2,000 and $2,999 that year. Almost 31 percent of the applicant group had already borrowed between $2,000 and $3,999 to finance earlier years of their education, and an additional 18 percent had already borrowed more than $6,000.

Information from the Student Aid Commission on the accumulated Guaranteed Student Loan debt of borrowers illustrates the increasing dependence on this source of financial aid. Although the vast majority of both borrowers still in school and those who have started to repay their loans have total Guaranteed Student Loan obligations of $5,000 or less (Table 23), those still in school are accumulating more indebtedness. While nearly 90 percent of the repayers owed $5,000 or less, only 80 percent of borrowers still in school have debts this small. Proportionately, nearly three times as many currently enrolled borrowers have debts totaling more than $15,000 as do repayers (5.1 percent, compared to 1.6 percent). Furthermore, average indebtedness for currently enrolled borrowers is anywhere from 5 to 9 percent higher in four of the six loan categories illustrated in Table 23 than it is for repayers.

While these aggregate figures document increasing dependence on the Guaranteed Student Loan program, they do not show the potential effects on individual students. The following eight case examples, based on average 1982-83 loans

TABLE 23 Guaranteed Student Loan Indebtedness of Currently Enrolled Borrowers and Repayers as of June 30, 1984

Indebtedness	Currently Enrolled Borrowers	Repayers
Total Borrowed:		
$ 0 - $ 2,500	56.4%	63.4%
$ 2,501 - $ 5,000	23.7	26.2
$ 5,001 - $ 7,500	8.3	5.2
$ 7,501 - $10,000	6.4	3.6
$10,001 - $15,000	3.6	1.4
Over $15,000	1.5	0.2
Average Borrowed:		
$ 0 - $ 2,500	$ 2,291	$ 2,180
$ 2,501 - $ 5,000	4,592	4,201
$ 5,001 - $ 7,500	6,790	6,447
$ 7,501 - $10,000	9,381	9,368
$10,001 - $15,000	13,485	13,446
Over $15,000	19,356	18,439

Source: California Postsecondary Education Commission from California Student Aid Commission data.

or on maximum allowable undergraduate loans (if less) illustrate the possible effects of students' repayment obligations. Each of them involves borrowing only under the Guaranteed Student Loan program, despite the fact that many Guaranteed Student Loan borrowers also borrow from other federal, family, or institutional sources. Thus they are probably conservative illustrations of potential loan obligations for students who borrow from several sources.

Example 1: A financially independent Community College student who started a full-time two-year program in 1982-83 and completed it at the end of 1983-84, and who borrowed $4,425 to finance both years' costs, will repay a total of $6,726.44 over 120 months with monthly payments of $56.05.

Example 2: A State University student who started his or her education at a Community College in 1980-81, transferred to the State University in 1982-83, and borrowed the maximum amount for undergraduates to cover the costs of these final two years, would pay a total of $6,966.50, or $58.05 each month for ten years to repay the $5,000 loan.

Example 3: A University of California student who started his or her baccalaureate program in 1979-80, completed it in 1982-83, and remained at the University to complete an MBA in 1983-84, and who borrowed every year except the freshman year would have borrowed $10,397 and owe $14,486.14, with monthly payments of $120.72 over 120 months.

Example 4: An independent college student who started his or her baccalaureate program in 1980-81 and completed it in 1983-84, borrowing all four years, would have received $10,000 and have to repay $13,933.20 over ten years at $116.11 a month.

Example 5: A student who borrowed to finance his or her final two years at the State University during 1982-83 and 1983-84 and who has enrolled in law school at an independent college, planning to borrow the maximum $5,000 loan allowed graduate students for all three years of law school, will owe $30,402 on the $20,000 loan, and will have to repay $253.35 every month for ten years.

Example 6: A student who borrowed to finance his or her final two years during 1982-83 and 1983-84) at an independent college and borrows the average amount at the University each of the next four years to complete an academic doctoral program would end up with a total loan of $10,974; a total payment for principal and interest of $16,681.58; and monthly payments of $139.04 over 120 months.

Example 7: A student who enrolled three-quarter's time in a three-year program in a proprietary school, beginning in 1980-81 and finishing in 1983-84, and who borrowed all four years would have a loan of $9,724, and would owe $13,548.45 in principal and interest, to be paid back at $112.90 a month over 120 months.

Example 8: A student who enrolls full-time as a freshman in a four-year institution in 1984-85 and anticipates borrowing $20,000 for both undergraduate and graduate studies at the same institution will graduate owing $29,119.20, to be repaid at a monthly rate of $242.65 for ten years.

REPAYMENT PROVISIONS

The Guaranteed Student Loan Program starts charging interest and requires repayment to begin within six months after completing school, dropping out, or enrolling less than half time. It limits the repayment period to ten years, except under special circumstances, and it requires a minimum payment of $50 per month, or $600 per year. Thus for students with loans of less than $3,000, the repayment period is six years or less. Currently, it requires payment of equal monthly installments toward retiring the loan and accrued interest.

Table 24 lists repayment schedules and amounts on loans between $1,000 and $25,000, based on 8 percent annual interest. It is clear from this table that students who borrow from $7,500 to $25,000 under the Guaranteed Student Loan Program to finance their educations have undertaken an obligation of between $90.99 and $303.31 a month for each of 120 months. Those students who borrow under the program but do not achieve their educational objective may have a particularly hard time repaying the loan for two reasons -- one economic, and the other attitudinal: (1) They may not realize the salary benefits of additional education; and (2) they may feel little obligation to repay a loan that they believe has bought them nothing. Defaults among such students may be more easy to understand than among borrowers who simply feel no obligation to repay their loans because they can get away with it. Of those students who fail to repay, no information is available on how many fall into each category.

TABLE 24 Sample Repayments for California Guaranteed Student Loans

Loan Amount	Monthly Payment	Number of Months	Total Principal and Interest Repayment
$ 1,000	$ 51.19	21	$ 1,074.99
$ 2,500	50.69	60	3,041.40
$ 3,000	52.60	72	3,787.20
$ 5,000	60.66	120	7,279.20
$ 7,500	90.99	120	10,918.80
$10,000	121.33	120	14,559.60
$12,500	151.66	120	18,199.20
$15,000	181.99	120	21,838.80
$20,000	242.65	120	29,118.00
$25,000	303.31	120	36,397.20

Note: Figures assume 8 percent annual interest over a ten-year repayment period, unless the minimum monthly payment of $50 would repay the loan earlier.

Source: California Student Aid Commission.

MANAGING REPAYMENT

The previous examples and facts about loan repayment, in combination with research on debt management, can help shed some light on the manageability of loan obligations for students at various degree levels and incomes. As the preceding discussion illustrates, most California borrowers, however, have relatively low accumulated debt. Their growing dependency on borrowing requires an understanding of the manageability of larger and larger levels of student debt.

In February 1984, the Educational Testing Service published Student Loan Limits: Estimating Manageable Student Loan Limits for the Class Graduating in 1984 and the Class Entering in 1985 by Dwight Horch. In that report, Horch sought to answer two important questions: (1) How much can students borrow and comfortably repay from future income in the absence of flexible repayment options -- that is, given the current ten-year equal monthly installment plan; and (2) "What would the manageable loan limit be for students under ten and fifteen-year graduated repayment plans, with annual repayment increasing each year in step with income?"

Horch defined "manageable" repayment as the proportion of borrowers' estimated incomes available for "other consumption" expenditures -- such as education, recreation, and miscellaneous expenditures -- after food, housing, transportation, clothing, personal care, medical care, gifts, contributions and insurance are factored out of total consumption. Based on Bureau of Labor Statistics standards for "other consumption," he estimated that students can manage to contribute from 5.8 to 9.0 percent of their after-tax income toward repaying their student loans, depending on their income level. (Other researchers who have also examined the issue of manageable debt burdens have suggested that what is manageable ranges from 3 percent to 15 percent of before-tax income.) Given these annual repayment capacities, Horch calculated that, with the exception of medical students, graduates completing their bachelor's, masters, and doctor's degree programs in 1984 could not reasonably be expected to comfortably repay their loan obligations under current repayment provisions.*

*A number of caveats are necessary to fully understand the results of Horch's study: First, estimates of manageable loans are made for groups of people based on median incomes of full-time employees. Any individual in a group may earn more or less than the median and be able to accommodate a different level of loan obligation than is illustrated here. Second, the budgets used in this study are those for families with two children and only a single employed adult. Third, the study assumed only one individual's debts are to be repaid in each family. Fourth and finally, the study assumed that the rate of income growth in various employment fields and for students with different educational levels would not vary over time. Although some of these assumptions will not hold true for all individuals in any single group, the results are useful for identifying potential issues relating to debt burdens and repayment provisions and in illustrating a useful analytic approach to assessing the implications of changes in loan limits.

Tables 25 and 26 compare the maximum these students were eligible to borrow with Horch's estimates of manageable loan limits as of 1984 and 1989, based on the assumption of higher starting salaries in 1989 than in 1984. As can be seen, even in 1989, only medical students would be able to repay their maximum loans within ten years. Even when degree levels are broken out by field, few students would be able to repay loans near the maximum, with only engineers and computer scientists with bachelors' degrees estimated to be able to repay the maximum $12,500 debts allowed undergraduates.

Allowing for graduated repayments over time would significantly increase the manageable loan obligation for students at all academic levels, as Tables 25 and 26 show. Graduating repayments over ten years would increase theoretically

TABLE 25 Maximum Loan Eligibility and Current and Projected Theoretical Manageable Student Loans for Students Graduating in the Class of 1984

Degree	Maximum Loan Eligibility	Current Theoretical Manageable Loan	Projected Theoretical Graduated Repayment Options 10-Year	15-Year
Bachelor's	$12,500	$ 5,000	$ 8,500	$13,500
Master's	25,000	6,500	11,000	18,000
M.B.A.	25,000	10,000	16,000	26,000
Law	25,000	8,500	17,500	29,500
Doctorate	25,000	10,000	14,000	22,500
Medicine	25,000	30,500	49,000	80,000

Source: Horch, 1984, p. 21.

TABLE 26 Maximum Loan Eligibility and Current and Projected Theoretical Manageable Student Loans for Students Graduating in the Class of 1989

Degree	Maximum Loan Eligibility	Current Theoretical Manageable Loan	Projected Theoretical Graduated Repayment Options 10-Year	15-Year
Bachelor's	$12,500	$ 6,500	$10,000	$16,500
Master's	25,000	7,000	12,500	20,000
M.B.A.	25,000	11,000	18,000	29,000
Law	25,000	10,000	20,000	34,000
Doctorate	25,000	12,000	17,000	27,000
Medicine	25,000	37,000	61,000	100,000

Source: Horch, 1984, p. 21.

manageable loan limits of 1984 degree recipients from 40 percent to 100 percent. Extending the repayment period another five years would have an even more dramatic effect -- at least doubling and in one case tripling manageable loan limits over current provisions. Similar patterns exist for students completing their degree programs in 1989, although a 15-year graduated repayment option would increase their theoretical manageable loan at least two and a half times.

Although the preceding analysis focused on theoretical manageable loan limits for various groups of degree recipients, there are wide variations within each group. For example, most bachelor students graduating in 1989 will be able to manage about half as much loan obligation under any of the repayment options as either engineers or computer scientists with bachelor's degrees earned that same year. A similar pattern exists at the master's level, with "religious workers" estimated to be able to manage half or less the loan obligation of accountants. Doctoral degree students who plan to become postsecondary education faculty members have theoretically manageable loan limits under any of the options of at least 15 percent less than those who plan to get their doctorates in the social sciences or humanities but who do not plan to become professors.

CREDIT ELIGIBILITY

Another way of viewing the issue of debt burden is to examine the ability of recent graduates with student loan obligations to obtain other credit, such as bank credit cards, automobile loans, or home loans. Ameritrust, a lender in Ohio, has developed unpublished examples of credit eligibility for recent bachelor's and master's degree recipients, based on the following requirements:

- To obtain a bank card, an Ameritrust customer must have an annual income of $15,000 and a ratio of debts to income of less than 35 percent.
- For an auto loan, income must be at least $8,400 and total debt must be less than 40 percent of income.
- For a home loan, no minimum income is required, but total debt may not be more than 35 percent of income, and housing expenses must not exceed 27 percent of income.

Using average salary figures from a March 1984 College Placement Council Salary Survey of $1,883 a month for bachelor's degree recipients and $2,295 for master's degree recipients ($22,600 and $27,500 a year, respectively), Table 27 shows that average recent bachelor's and master's degree graduates can probably qualify for a bank credit card with little difficulty, but neither would qualify for a $7,500 automobile loan with payments of $202 a month. The bachelor's degree recipient would be allowed car payments of only $132 per month, while the master's degree recipient would be limited to $160 a month.

TABLE 27 Credit Eligibility for Recent Bachelor's Degree and Master's Degree Recipients

	Expenses		Expenses as a Percent of Income		Total Expenses as a Percent of Income	
	Bachelor	Master	Bachelor	Master	Bachelor	Master
Student Loan Repayment	$121[a]	$258[b]	6%	11%	6%	11%
Rent	350	350	19	15	25	26
Credit Cards	150	150	8	7	33	33
Auto Loan[c]	202	202	11	9	44	42

a. Assumes a $10,000 loan at 8 percent interest repaid over ten years.

b. Assumes $18,500 in student loans, some at 8 percent (Guaranteed Student Loan) and some at 12 percent (PLUS).

c. Assumes a $7,500 loan at 13 percent interest repaid over four years.

Source: California Postsecondary Education Commission staff calculation from March 1984 College Placement Council Salary Survey as reported by Ameritrust.

Neither graduate would be eligible to purchase a house under Ameritrust's credit eligibility requirements. The purchase of a $60,000 house at 13.5 percent with a 20 percent down payment would require monthly mortgage insurance and tax payments of $640. For the bachelor's recipient, this would represent almost all the allowable debt under Ameritrust's policies (34 percent) and exceed the amount it allows for housing debt by over 25 percent. While the recent master's degree recipient might be able to manage that level of housing debt (about 28 percent), the combination of the housing loan payments and educational loan payments would total nearly $700 a month, or 30 percent of total income. Furthermore, none of these calculations include income tax obligations, which would represent another 18 and 20 percent of income, respectively.

These examples illustrate that students with large loan indebtedness will typically have to postpone major purchases for at least a time after entering the work force, and that the funds needed to repay student loans -- $14,500 for the bachelor's recipient and $31,000 for the master's recipient -- could instead establish the resource base for major purchases such as an automobile, home, or a child's education. Clearly, college graduates with substantial student loan obligations will not be able to borrow extensively for such purchases in the first years after finishing school. The impact of this increasingly common set of circumstances has major implications for the overall health of the economy.

STEPS FOR KEEPING DEBT BURDENS MANAGEABLE

Some might argue that the preceding analysis leads to the conclusion that current maximum student loan limits should be reduced or else retained only for certain high-income fields of study like medicine or computer science. Given the current costs of education, however, the current loan maximums do not seem unreasonable. For students attending four years at most independent colleges, a maximum Guaranteed Student Loan each year would cover something less than a quarter of their costs. If loan limits were reduced, students would have to make up the difference from other aid sources. Grant funds are unlikely to increase enough to reduce dependence on loans significantly. For example, increasing Cal Grant funds by $100 million would more than double those grant funds, yet represent less than one-sixth of Guaranteed Student Loan borrowing -- or about $400 on a maximum $2,500 loan. Moreover, many if not most students already work to help cover part of the costs of their education. Although several studies have shown that working, particularly on or near campus, actually improves persistence for some students, it would appear that, at some point, requiring full-time students to work more and more hours could result in diminishing educational returns.

Moreover, it does not appear wise to set maximum loan limits on the basis of students' academic majors. Fields of study are only partly related to career fields and future income levels. To impose loan limits in particular fields would restrict some students' abilities to pursue their chosen disciplines and encourage them into particular degree programs or careers simply to finance their educations.

Even without changing he maximum loan limits, however, three important steps can be taken to keep debt burdens manageable: (1) better counseling, (2) modification in repayment provisions, and (3) basing eligibility on demonstrated need. These are discussed in detail in Part Six.

FOUR

LOAN DEFAULT ISSUES IN CALIFORNIA

The three previous parts of this report have described what is known about the characteristics of California's Guaranteed Student Loan borrowers, their use of these loans to finance their education, and the implications of their indebtedness for their education and careers. This part focuses on perhaps the most controversial issue related to Guaranteed Student Loans: defaults. Defaults represented only 17 percent of total federal costs to support the Guaranteed Student Loan Program in 1983, as Table 28 shows, but they damage the credibility of the program and thereby undermine support for it among both the public and federal and state policy makers.

This part of the report explains the terminology of default, compares California's default rates with those of other states, both as a whole and for particular educational sectors, and projects likely default rates for California in the foreseeable future. It then examines the relations of these default levels and growth rates to loan volume and the length of California's participation in the Guaranteed Student Loan Program. It next discusses what is known about California institutions, lenders, and students with high default rates; what has not been known about them; and why. Finally, it reviews factors related to defaults in California and other states and at the federal level.

THE TERMINOLOGY OF DEFAULT

To understand the issue of defaults requires agreement on the meaning of "defaults" and "default rates."

TABLE 28 Default Payments Compared to Other Program Costs, 1983

Program Costs	Dollars	Share of Total Costs
Interest Subsidies	$1,264,000,000	43%
Special Allowance Payments to Lenders	1,072,000,000	37
Defaults	486,000,000	17
Bankruptcy, Death, or Disability	33,000,000	1
Guarantee Agency Administrative Cost Allowances	49,000,000	2
TOTAL	$2,924,000,000	100%

Source: California Postsecondary Education Commission staff calculations from U.S. Department of Education data.

A loan is considered to be in default when a borrower fails to make an installment payment when due, fails to establish a repayment plan, or violates other terms of the loan agreement such that the Student Aid Commission can reasonably conclude that the borrower no longer intends to repay the loan. These conditions must exist for 120 days before the lender may file a claim.

Default claims paid are the dollar amounts paid to lenders, regardless of whether they are paid in whole or in part by the federal government.

The gross default rate is the ratio of the total dollar amount of default claims paid at any point to the total dollar amount of matured loans since the program's inception, with matured loans being all those that are in repayment, deferred, in default, or paid in full. This is the default rate that should be used for policy discussions and intersegmental and interstate comparisons, although at least two other default rates are also calculated:

- The net default rate is the ratio to total matured loans of loans on which claims have been paid that are "still in default," in that either arrangements have not yet been made to start repayment or the loan has been deemed uncollectable. Thus it differs from the gross default rate by not including loans on which claims were paid but for which repayment started, court action has been taken, or collection is deemed impossible, thereby reducing the default rate. Generally, state guarantee agencies that have been in existence for a long time have noticeably lower net default rates than gross default rates than newer agencies, since they have had more time to establish procedures to get loans into repayment after default, and in some cases their defaulters have had more time to establish themselves financially to be able to repay. This net default rate is also lower in those states that litigate all defaulted loans than in other states like California, since loans in litigation are not included in its calculation. As a result, U.S. Department of Education officials have cautioned against using the net default rate for interstate comparisons because of the great variability in the age of state programs and in state policies with respect to litigation and uncollectables.

- Second, the trigger default rate is the rate used to determine eligibility for federal reinsurance payments on defaulted loans to state guarantee agencies. It is calculated by dividing the dollar amount of defaulted loans on which claims have been made during a specific federal fiscal year by the dollar amount of loans in repayment at the end of the prior federal fiscal year. This calculation starts with the numerator at zero at the beginning of the fiscal year and increases as claims are paid through the year. The denominator does not change, so that any state that has defaults during the year will have a higher trigger rate at year's end than it did when the fiscal year began. Page 7 above contains an explanation of how the trigger rate determines a guarantee agency's eligibility for federal reinsurance on default claims paid. It is difficult if not impossible to establish direct relationships between gross default rates and trigger default rates, and state eligibility for federal reinsurance. For example, in federal fiscal year 1983, 13 states had gross default rates of more than 9 percent, but only two fell to the 80 percent federal reinsurance rate that a trigger default rate of 9 percent requires.

DEFAULT RATES NATIONALLY AND IN CALIFORNIA

The most recent data on gross default rates available nationally is that prepared by the Division of Policy and Program Development of the Guaranteed Student Loan Branch of the U.S. Department of Education for periods through September 30, 1983. The national rate was 9.25 percent, slightly lower than California's 9.49 percent that year. Among the states, the rate ranged from a low of 2.05 percent in South Carolina to 13.11 percent in the District of Columbia. Table 29 shows the rates for the 12 states that accounted for 79 percent of all Guaranteed Student Loan dollars borrowed that year. As can be seen, only one of them -- Ohio -- had a gross default rate of less than 5 percent, while seven of the 12 (including California) were over the national average and ranged from 9.42 to 12.46 percent.

Table 29 also shows that some of the dozen states had a disproportionate share of defaults compared to their share of matured loans. Together, the

TABLE 29 Matured Paper, Default Payments, and Gross Default Rates of the Nation's Twelve Largest Guarantee Agencies Through September 30, 1983

	Matured Paper		Default Claims		
	Dollars	Percent of Total Matured Paper	Dollars	Percent of Total Default Claims	Default Rate
California	$ 758,626,891	4.5%	$ 72,012,835	4.7%	9.49%
Connecticut	771,040,667	4.6	72,667,659	4.7	9.42
Illinois	837,500,855	5.0	84,793,213	5.5	10.12
Massachusetts	1,134,371,603	6.8	65,345,481	4.3	5.76
Michigan	614,489,603	3.7	52,161,472	3.4	8.49
Minnesota	438,671,307	2.6	29,949,585	1.9	6.83
New Jersey	1,183,652,514	7.0	125,939,684	8.2	10.64
New York	3,967,087,725	23.6	455,282,259	29.7	11.48
Ohio	545,276,356	3.2	18,634,161	1.2	3.42
Pennsylvania	1,950,982,732	11.6	243,013,858	15.9	12.46
U.S. Aid Funds*	453,650,153	2.7	34,670,571	2.3	7.64
Wisconsin	580,346,086	3.4	57,264,441	3.7	9.87
Subtotal	$13,235,696,492	78.7%	$1,311,735,219	85.6%	9.90%
Other Guarantee Agencies**	$ 3,565,815,878	21.2%	$ 220,800,867	14.4%	6.20
TOTAL	$16,801,512,370	100.0%	$1,532,536,086	100.0%	9.12%

*A private nonprofit corporation that serves as the guarantee agency in several states.

**Other guarantee agencies are those for the other 38 states, the territories (Pacific Islands, Puerto Rico, Virgin Islands), the District of Columbia, and a single private guarantor which guarantees loans in a number of states.

Source: U.S. Department of Education, Guaranteed Student Loan Branch, Division of Policy and Program Development.

12 states accounted for about 7 percent more of the defaults than they did of matured loans. California accounted for only slightly more defaults than it did borrowing (4.7 percent, compared to 4.5 percent), but New York and Pennsylvania -- the two largest participants -- had a disproportionate share of defaults: 25 percent and 37 percent more, respectively, than their matured loans. In contrast, Massachusetts had over a third fewer defaults than would be expected giving its borrowing volume.

The explanation for these differences among states is not readily apparent. The services provided by the guarantee agencies in the 12 states to lenders, schools, and students appear comparable in number and type according to information from a 1983 survey of state guarantee agency activities (National Council of Higher Education Loan Programs, 1984). Whether the differences in default rates result from the effectiveness with which the activities are implemented or from demographic or other differences among these states cannot be determined at this time.

DIFFERENCES AMONG INSTITUTIONS IN DEFAULT RATES

Table 30 below contains the latest statistics on loan volume and defaults for California's five major educational sectors. It shows that four-year

TABLE 30 California Guaranteed Student Loan Program Default Statistics by Educational Segment as of September 30, 1984

Segment	Default Rate	Outstanding Loans	Percent of Outstandings	Matured Paper	Percent of Matured Paper	Defaults	Percent of Defaults
University of California	4.6%	$ 388,169,945	14.8%	$ 165,861,658	13.3%	$ 7,718,349	5.8%
California State University	7.5	302,956,761	19.2	237,097,096	19.0	18,015,157	13.5
Community Colleges	17.8	272,631,372	10.4	161,393,153	12.9	28,754,508	21.5
Independent	6.6	798,007,767	30.5	360,967,459	28.9	24,060,757	18.0
Proprietary	21.7	405,265,497	15.5	212,868,298	17.1	46,266,067	34.6
Other*	8.1	250,089,352	9.6	109,847,950	8.8	8,950,476	6.7
TOTAL	10.7%	$2,617,120,694	100.0%	$1,248,035,614	100.0%	$133,765,314	100.0%

*Other includes private two-year colleges, hospital schools, out-of-state and out-of-country institutions.

Source: California Postsecondary Education Commission from California Student Aid Commission data.

colleges and universities have many fewer defaults than would be expected, given their share of loans. Together the University of California, the California State University, and independent colleges and universities account for over 60 percent of California's matured loans but only 37 percent of its loan funds in default. In contrast, the Community Colleges account for only 10 percent of the loans but 21 percent of the defaults, and -- most dramatic -- the private vocational or proprietary schools account for nearly 35 percent of the defaults, or twice their 17 percent share of matured paper. The other 9 percent of defaults are in other schools as defined in Table 30.

The federal government does not ask states to report loan activity and default statistics by educational sector, although this information would be useful in helping to isolate factors related to default. If other states with the educational diversity of California were to exhibit similar patterns of defaults among their educational sectors, federal and state default prevention activities could logically focus on tactics particularly applicable to community colleges and proprietary schools. In contrast, if other states were to show patterns dissimilar to that of California, factors internal to this State would have to be examined, including the relationship of the Student Aid Commission to the Community Colleges and proprietary schools, characteristics of students who default in all segments, and the role of lenders in defaults.

DEFAULT TRENDS AND PROJECTIONS

The default rate of the California Guaranteed Student Loan Program has grown substantially over the last four years -- from 1.8 percent in 1980-81 to 6.0 in 1981-82, 9.5 in 1982-83, and 10.7 in 1983-84. The Student Aid Commission, the Auditor General and the U.S. Department of Education have all observed that California's rate of growth is not unique: All relatively new Guaranteed Student Loan programs experience a period of rapid growth in default rates, for the reason that during the early years of a state's participation, few loans matured and became due for repayment. In the initial year of a state's program, even students who borrow for their final year of schooling and those in a single-year program have six to twelve months to begin repayment after completing their programs. Because 1979-80 was the first meaningful year of operation of California's program, repayments on the earliest of those loans did not become due until late 1981 or even 1982. Loans made in the high volume years of 1981-1984 did not go into repayment until 1982-83 at the earliest and in many cases will not go into repayment until the late 1980s. Furthermore, the loans that go into repayment first are those most associated with high defaults -- from Community Colleges and proprietary schools with large numbers of short-term programs and large numbers of defaulters.

The Student Aid Commission projects that California's gross default rate will continue to increase through 1987-88 (though more slowly than actual default rates increased in the early 1980s) as follows:

1980-81 (actual)	1.80%
1981-82 (actual)	6.01%
1982-83 (actual)	9.49%
1983-84 (actual)	10.71%
1984-85 (projected)	11.68%
1985-86 (projected)	12.15%
1986-87 (projected)	12.67%
1987-88 (projected)	13.12%

Despite the fact that the State's gross default rate is projected to continue to increase over the next three years, its "trigger" default rate, which is related to current-year defaults and previous-year matured paper, is projected to decrease over these years as follows:

1984-85	7.32%
1985-86	5.12%
1986-87	4.86%
1987-88	3.59%

If these projections prove accurate, the Student Aid Commission will be reimbursed by the federal government for 100 percent of the default claims it pays for the first three quarters of federal fiscal years 1985 and 1986, as well as for all of 1987 and 1988. In the final quarter of 1985 and 1986, however, federal reimbursements will drop to 90 percent of California's default claims.

These projections suggest that the integrity of California's Guaranteed Loan Reserve Fund will remain unimpaired for the foreseeable future, but they raise the question of public confidence in the Guaranteed Student Loan Program. Projections of future default rates in other states are not available, but since many of the major states have long-established programs, their current default rates are probably indicative of their future rates. If this is the case, then California's projected default rate of 12 to 13 percent may be higher than many of the states that account for the majority of Guaranteed Student Loans. If the current pattern of increasing participation by students who attend proprietary schools continues and if the default rate of those borrowers remains at current levels, it is possible that California's overall default rate will be even higher than is now projected. Whether California's defaults are paid in whole or in part by the federal government may not be as important as whether the public will be willing to support a loan program with an "equilibrium" default rate of this magnitude.

CHARACTERISTICS OF CALIFORNIA DEFAULTERS

Meaningful information on the characteristics of California students who default and on postsecondary institutions and lenders with high default rates is not available to the California Postsecondary Education Commission. Although these data exist, they are virtually inaccessible because of the nature of the Student Aid Commission's data processing files, which are set up to facilitate program administration rather than policy analysis. As a

result, obtaining information in an analytic format is extraordinarily expensive and time-consuming. Furthermore, colleges and universities have been unable to provide basic facts on their borrowers and defaulters, such as their graduation status or their cumulative debt burdens.

The remainder of this section presents the limited information available to the Postsecondary Education Commission on characteristics of students who default and of lenders and institutions with high default rates. It describes what characteristics could be examined if existing data were accessible, and it suggests what other information would be useful in drawing conclusions about the causes of default.

Segmental Differences in Defaulter Characteristics

The Student Aid Commission has developed data on characteristics of student defaulters that include (1) percent of their loans they paid before default, (2) their reason for claim, (3) their total amount defaulted, and (4) their age at time of default. Table 31 summarizes these data for student defaulters

TABLE 31 Selected Characteristics of California Guaranteed Student Loan Defaulters Categorized by Segment

Characteristic	University of California	The California State University	California Community Colleges	Independent Colleges	Private Vocational Schools	Other	Total
Percent of Loan Repaid Before Default:							
No payments	1.1%	1.1%	1.1%	1.3%	1.2%	0.7%	1.1%
Less than 25 percent	74.8	72.3	71.7	74.8	68.4	66.1	70.6
26 - 49 percent	12.7	13.6	14.8	12.4	16.0	16.9	14.9
50 - 74 percent	6.2	7.7	7.8	6.6	9.5	11.1	8.5
75 - 100 percent	5.1	5.1	4.5	4.9	5.0	5.3	4.9
Reason for Claim:							
Default	95.2	95.6	97.2	93.9	98.3	96.6	96.6
Bankruptcy	1.2	2.0	1.7	3.3	1.1	1.4	1.6
Death	2.6	1.7	0.6	2.0	0.4	1.5	1.0
Disability	1.0	0.6	0.5	0.9	0.2	0.4	0.5
Total Amount Defaulted:							
Under $ 2,500	61.7	63.7	76.3	46.3	86.8	75.1	74.5
$ 2,500 - $ 5,000	28.1	28.3	20.2	37.0	12.9	20.9	20.7
$ 5,001 - $ 7,500	5.4	6.0	3.3	7.5	0.2	2.2	2.9
$ 7,501 - $10,000	3.9	1.7	0.1	6.8	0.0	1.4	1.4
$10,001 - $15,000	0.9	0.3	0.0	2.3	0.0	0.4	0.4
More than $15,000	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Age at Time of Default:							
20 or under	0.4	0.4	1.8	0.6	4.3	4.0	2.6
21-22	5.5	3.0	16.2	4.5	18.5	24.9	14.2
23-24	20.6	15.8	19.5	14.8	17.6	19.9	17.7
25-26	28.0	28.4	15.1	15.3	14.1	14.0	16.9
27-28	16.1	16.7	11.5	11.6	11.4	9.0	12.2
29-30	9.9	10.0	9.3	10.1	8.7	6.5	9.1
31-35	11.7	14.8	13.5	19.6	13.8	10.7	14.2
36-50	7.4	9.6	11.6	20.7	10.7	9.7	11.7
51 or over	0.6	1.2	1.4	2.7	1.0	1.3	1.3
Percent of Total Defaulters	5.0%	11.9%	21.5%	12.4%	42.2%	7.0%	100.0%

Note: These percentages are based on the number of defaulters, while those in Table 29 are based on the amount defaulted.

Source: California Student Aid Commission.

for each of the five major segments and indicates the percent of total defaulters in each segment. These latter figures differ from those in Table 30 on page 44, which represent dollars defaulted. Data on the share of individual borrowers in each segment are not available, and thus it is impossible to determine whether a disproportionate share of individual borrowers default or repay in any particular segment.

Percent of Loan Repaid: The vast majority of defaulters in all segments repay less than 25 percent of their loans before defaulting. Community College students and proprietary school students actually have slightly better repayment records before defaulting than do students attending four-year institutions, although they represent the two largest groups of defaulters. Over 30 percent of the proprietary school defaulters repay over 25 percent of their loans, compared to 27 percent of those at Community Colleges, 26 percent at the State University, and 24 percent at both the University and independent institutions.

Reason for Claim: Virtually all claims paid to lenders for uncollectable loans are for defaulters rather than for bankruptcy, death, or disability of the borrower -- over 95 percent in all segments except for independent institutions, where defaulters account for only 93.9 percent of the claims and where 3.3 percent stem from bankruptcies. No more than 2 percent of the unpaid loans in any other segment are account for because of individuals going into bankruptcy, and the overall rate is only 1.6 percent: half that of the independent institutions' rate.

Total Amount Defaulted: Overall, 95.2 percent of the defaulters fail to repay amounts under $5,000, but the total amount defaulted varies significantly among the segments. Both University and State University defaulters do so on about the same amounts, with 62 and 64 percent of them defaulting on less than $2,500 and another 28 percent defaulting on between $2,500 and to $5,000. In contrast, only 46 percent of independent college defaulters fail to repay small amounts of less than $2,500; 37 percent default on up to $5,000; and nearly 17 percent fail to repay amounts of over $5,000. (At no other segment do more than 10.2 percent of defaulters fail to repay debts of more than $5,000.) In both Community Colleges and proprietary schools, the vast majority of defaulters -- 76.3 and 86.8 percent, respectively -- default on $2,500 or less. Those whose defaults total between $2,500 and $5,000 account for another 20 and 13 percent in each of those segments.

Age at Time of Default: With the exception of defaulters at independent institutions, most defaulters are under 29 years of age when they default -- nearly two-thirds of these at the University, State University, Community Colleges, and proprietary schools. In contrast, fully 53 percent at independent institutions are 29 or older. Nearly 50 percent of the University's defaulters are between 23 and 26. In the State University, defaulters are slightly older; and in Community Colleges and vocational schools they are slightly younger. The largest group of defaulters in any age group at the proprietary schools is the 21- to 22-year olds, while at the opposite extreme over 40 percent of the defaulters at independent institutions are over 31 years old.

Loan Holder Differences in Defaulter Characteristics

The Student Aid Commission also has developed the information on defaulter characteristics categorized by loan holder that appears in Table 32. These holders of outstanding loans are not necessarily the originators of the loans, since many original lenders sell their student loans to secondary markets for servicing and collection. These sales may occur at any time from immediately after the loan is originated to just before it enters repayment. Different lenders sell different parts of their student loan portfolios at different times. Some lenders -- primarily those from out-of-state -- sell few of their student loans. Others sell as many loans as they can or that are eligible to be purchased. (The major secondary market has established thresholds of minimum average loan eligibility that prevent originators from selling some of their smaller loans.) The following paragraphs focus on secondary markets, out-of-state lenders, and California banks, since their outstanding loans account for 97 percent of all defaulters.

TABLE 32 Selected Characteristics of California Guaranteed Student Loan Defaulters Categorized by Loan Holder

Characteristic	Secondary Markets	Out-of-State Commercial Lenders	California Banks	California Savings and Loans Associations	California Credit Unions	Total
Percent of Loan Paid Before Default						
No Payments	1.0%	1.1%	1.2%	1.1%	2.7%	1.1%
Less than 25%	74.0	69.8	67.4	71.1	70.1	70.6
26% - 49%	13.2	15.4	15.3	15.7	16.3	14.9
50% - 74%	7.0	8.9	10.2	8.0	5.4	8.5
75% - 100%	4.8	4.8	5.9	4.1	5.4	4.9
Reason for Claim						
Default	96.4	97.3	96.2	98.8	85.6	96.9
Bankruptcy	1.6	1.7	1.4	0.4	6.1	1.6
Death	1.4	0.7	1.5	0.5	6.6	1.0
Disability	0.6	0.3	0.9	0.4	1.7	0.5
Total Amount Defaulted						
Under $ 2,500	67.6	75.0	82.5	89.1	57.4	74.5
$ 2,500 - $ 5,000	23.3	21.5	13.9	9.8	30.2	20.7
$ 5,001 - $ 7,500	5.4	2.2	2.2	0.5	2.5	2.9
$ 7,501 - $10,000	2.7	1.0	1.0	0.6	8.4	1.4
$10,001 - $15,000	0.8	0.3	0.4	0.0	1.4	0.4
More than $15,000	0.0	0.0	0.0	0.0	0.0	0.0
Age at Time of Default						
20 or Under	1.1	3.0	3.6	4.4	4.4	2.6
21 - 22	12.1	14.0	17.2	24.7	13.7	14.2
23 - 24	18.9	16.5	20.8	19.9	13.2	17.7
25 - 26	19.3	15.8	17.8	15.5	9.3	16.9
27 - 28	12.7	12.2	11.6	9.1	8.2	12.2
29 - 30	9.0	9.4	8.2	5.8	6.0	9.1
31 - 35	13.8	15.1	11.1	12.0	18.1	14.2
36 - 50	11.6	12.5	8.8	7.8	22.0	11.7
50 or over	1.5	1.4	0.9	0.9	4.9	1.3
Percent of Total Defaulters	25.0%	59.5%	12.6%	2.5%	0.4%	100.0%

Note: These percentages are based on the number of defaulters, while those in Table 29 are based on the amount defaulted.

Source: California Student Aid Commission.

Percent of Loan Repaid: Over two-thirds of the three major loan holders' defaulters had repaid less than 25 percent of their loans when they default: 68.6 percent at California banks, 70.9 percent at out-of-state lenders, and fully 75.0 percent at secondary markets.

Reason for Claim: In all three cases, at least 96 percent of the claims are because of defaults, as opposed to bankruptcy, death, or disability.

Total Amount Defaulted: The amounts defaulted differ significantly according to the holder of the loan. Defaulters on loans of less than $2,500 account for fully 82.5 percent of those at California banks but only 75.0 percent at out-of-state lenders and 67.6 percent at secondary markets. Almost 14 percent of California banks' defaulters fall into the next category of amount defaulted -- $2,500 to $5,000 -- compared to 21.5 percent at out-of-state lenders and 23.3 percent at secondary markets. For California banks and out-of-state lenders, over 96 percent of their defaulters have defaulted on $5,000 or less. For secondary markets, over 90 percent of their defaulters are in the same category, but 8.9 percent have defaulted on more than $5,000.

Age at Time of Default: Defaulters whose loans are held by California's banks tend to be somewhat younger than those whose loans are held by either out-of-state lenders or secondary markets: nearly 60 percent of California bank defaulters are below the age of 27, while only about half of the other defaulters are this young. Defaulters who are 29 or older total 36 and 38 percent of secondary market and out-of-state lender defaulters, compared to only 29 percent for California bank defaulters.

Significance of These Data

To summarize the previous pages:

- Sixty-four percent of California defaulters attend either proprietary schools or Community Colleges.
- Over 98 percent of defaulters have made partial payments on their loans.
- Ninety-five percent of all claims that have been paid to lenders are the result of defaults, as opposed to bankruptcy, death, or disability.
- Despite differences among the educational segments and among holders of loans, at least 83 percent of the defaulters in any category have defaulted on less than $5,000 in loan obligations.
- For the most part, California defaulters are young -- over 60 percent of them are between 21 and 28 years old.
- And 60 percent of defaulters have loans that are held by out-of-state lenders.

While this information is useful, it does not tell much about defaulters. It does not indicate how they differ from other borrowers; it does not show

whether the distribution of borrowers among the segments differs from the distribution of defaulters; and it fails to indicate the distribution of borrowers and defaulters among different kinds of lenders and loan holders.

The missing information would answer the questions of whether defaults are related to student demographic characteristics, to type of institution attended, or to type of lender involved -- and then help to plan effective strategies for default prevention. For example, if the relatively small number of defaulters at four-year institutions have the same demographic characteristics as the larger numbers at Community Colleges and proprietary schools, then efforts to reduce defaults should be focussed on all borrowers with those characteristics. If, on the other hand, no demographic characteristics of defaulters are comparable in the various segments, examination of institutional and lender characteristics would have to be undertaken. For example, how do financial aid counseling and information services at institutions with high default rates differ from those at institutions with low default rates? If there are differences, then default prevention efforts might focus most productively on advice and technical assistance to upgrade loan administration, management, and counseling at the campus level. Do different kinds of lenders differ in their treatment of student borrowers as individuals or student loans as financial transactions? Do certain types of lenders have relationships with particular types of schools that result in particularly high default rates?

Currently none of these questions that would allow conclusions about the causes of defaults can be answered. At the direction of the Legislature, the Student Aid Commission is undertaking a study of postsecondary institutions with Guaranteed Student Loan default rates over 15 percent. This review, which will examine school, student, and lender characteristics of a random sample of Community Colleges and proprietary schools with high, medium, and low default rates, should offer some initial insights about factors related to default in these two segments; but similar comparative information about four-year institutions and their borrowers and defaulters will remain unavailable.

The Student Aid Commission's contract with its current data processing firm may expire next year, and the Commission is in the process of redefining its data processing needs for the Guaranteed Student Loan program. This redefinition provides an opportunity for it to incorporate a capacity for policy analysis as part of its ongoing contract for administrative data processing, and thereby permit eventual answers to questions about defaulters such as those raised here.

DEFAULTER CHARACTERISTICS NATIONALLY AND IN OTHER STATES

The limited information about characteristics of students, institutions, and lenders, with high default rates is not restricted to California. Few systematic examinations of factors related to default have been conducted, and virtually none have been undertaken in the recent past, when lending -- and defaulting -- have expanded so dramatically. The U.S. Department of Education is currently conducting several studies of borrowers and defaulters

and a study of successful lender collection practices, but in the meantime, the best available information on characteristics related to defaults nationally remains that collected in 1980 by John B. Lee and Associates (1984). These data have some acknowledged methodological weaknesses, in that only 55 percent of the available loan records were useable and 21 states had to be excluded from the study (including four that account for 20 percent of the nation's loan volume), but the data are reinforced by the findings of four other studies undertaken independently by individual states (Anderson, 1983; Enlenfeldt and Springfield, 1984; Illinois State Scholarship Commission, n.d.; New York, n.d.).

Lee and Associates found that high default rates are associated with:

- early academic years reported for the last loan, in that borrowers who take out their last loans as freshmen or sophomores have the highest default rates;
- early stages of the repayment period, in that the highest number of defaults occur four to five years after the last loan is made;
- small loans, in that students with loan balances over $9,000 have a lower probability of default than do students with smaller loans;
- attendance at a public two-year college or a proprietary school; and
- loans made by a credit union.

Table 33 summarizes these factors along with those examined by Illinois, New York, Vermont, and Virginia in their studies of the characteristics of defaulters. These reports are useful primarily for illustrating the factors that should be examined in analyses of the causes of default, since only the Virginia and New York studies compare defaulter characteristics with those of all borrowers or repayers and there is little overlap in the factors examined in each of the studies. For these reasons, only limited conclusions about the characteristics of defaulters are possible from these reports. Nonetheless, the following paragraphs summarize the characteristics that seem to be common among defaulters in all of the states.

Year of Last Loan: Illinois, Vermont, and Virginia all found that most of their defaulters took out their last loan in their freshman or sophomore years of college.

Age at Time of Default: Illinois and Vermont found that over 70 percent of their defaulters were under 30 years old at the time of default.

Number of Loans: These two states also discovered that over 50 percent of their defaulters had borrowed only once, and that over 75 percent had taken out only two loans. New York's comparison of defaulters and repayers showed that, on the average, defaulters took out fewer than two loans, while repayers took out nearly three during their college careers.

Total Amount Defaulted: Loan indebtedness for defaulters was generally low: Over half of Virginia's defaulters had debts of $2,500 or less, while 80 percent of Vermont's had obligations of $3,000 or less. The average loan

TABLE 33 Factors Examined in Selected Studies of Guaranteed Student Loan Defaulter Characteristics

NATIONAL (John B. Lee and Associates, 1984)

- Academic year of student enrollment.
- Elapsed time between borrowing and default.
- Size of loan defaulted.
- Characteristics of college attended by defaulters.
- Lender type.

ILLINOIS (Illinois State Scholarship Commission)

- Dependency status.
- Year in school at time loan was issued.
- Number of loans guaranteed to the borrower.
- Age of borrower at time of default.
- Reason for default.
- Total of loans guarateed to defaulter.

NEW YORK

- Cumulative debt.
- Number of loans.
- Percent of cost of education covered by other financial aid.
- Income at time loan was taken out.
- Graduation rate.
- Age.
- Academic grade level.
- Type of lender.
- Frequency of summer or part-time employment while in school.
- Employment status at time loan became due (salary level, duration of employment).
- Share of take-home pay expended for fixed costs when loan was due.
- Frequency of family assistance in repaying loan.
- School exist interview.
- Borrower awareness of cumulated debt.
- Borrower awareness of monthly repayment obligation.
- Borrower awareness of when repayment began.

VERMONT (Anderson, 1983)

Student Characteristics

- Age at time of default.
- State of residence of defaulter.
- Level and type of degree program.
- Program level by total debt owed.
- Academic year when last loan was made.
- Number of loans by academic year.
- Anticipated graduation date.
- Cost of education.
- Cost of education by year of loan.
- Cost of education by total debt owed.
- Amount of other financial aid received.

Institutional Characteristics

- Location.
- Location by total debt owed.
- Defaulted students by institution.
- Enrollment and defaults of Vermont residents in Vermont institutions

Lender Characteristics

- Frequency of defaulted borrowers by lender.
- Frequency of defaulted borrowers by region
- Lenders by number of loans.
- Lenders by total debt owed.
- Lenders by total outstanding loans with total amount of defaulted loans by lender.
- Outstanding loans, amount of principal paid to lender by guarantee agency, and partial principal paid to lender by defaulter.

Characteristics of Defaulted Loans

- Frequency of total debt owed.
- Number of loans per student.
- Exit date.
- Date of loan maturity.
- Status of defaulter before defaulting.
- Final loan maturity date.
- Partial pay dates.
- Amount of principal paid by guarantee agency.
- Frequency of claim paid by guarantee agency.
- Number of years between loan maturity and default.

VIRGINIA (Ehlenfeldt and Springfield, 1984)

- Dependency status.
- Full-time versus part-time enrollment status.
- Income at time of loan.
- Citizenship.
- Age at time of default.
- Number of rejections or inciplete applications before loan approval.
- Type of institution attended.
- Academic grade level.
- Major course of study.
- Term of repayment.
- Monthly payment amount.
- Number of full payments made before default.
- Number converted to repayment.
- Number of computer generated deliquency letters.
- Outstanding cumulated indebtedness.
- Principal claim paid.
- Extent of skip-tracing activity.
- Number of contacts with each borrower.
- Average length of time forbearance granted.
- Type of deferments granted.
- Reasons for default.

Source: California Postsecondary Education Commission staff analysis of cited reports.

for all Illinois defaulters was $2,455 in 1979, although since then the average has increased to almost $2,900.

Family Income: Both New York and Virginia found that defaulters generally came from lower-income families than did repayers.

Because only New York and Virginia have conducted comparative studies of the characteristics of defaulters and repayers, no conclusions about differences between defaulters and repayers can be made from the data of other states. It is entirely possible, for example, that such characteristics as year of last loan, age at default and average loan indebtedness do not distinguish defaulters from repayers. Nonetheless, these individual state studies reinforce the major findings of the Lee and Associates' national study. Thus Virginia's comparison of loan volume and default volume by educational sector indicated disproportionate defaults among its community colleges and its business, trade, and technical schools. Unlike the national study, however, New York found credit union borrowers among the least likely to default, compared to bank or savings and loan borrowers.

FIVE

DEFAULT PREVENTION IN CALIFORNIA

The responsibilities of borrowers, institutions, lenders, state guarantee agencies, and the federal government for reducing excessive defaults are complex, interrelated, and not neatly categorized. Default prevention strategies can be analyzed, however, in terms of the responsibility of the parties for implementing them. The following questions provide a focus for assessing these responsibilities and the strategies associated with them.

1. Are student borrowers adequately informed of their repayment responsibilities both initially and during the loan process? Can high-risk borrowers be screened out of the program within the existing regulatory structure? And can defaulters be made to better recognize their obligation to repay their loans?

2. Do institutions have the expertise and resources to facilitate the repayment process? Can special administrative requirements or sanctions make institutions more responsive to their high default rates?

3. Could lenders exercise greater care and diligence in making and servicing loans that could lead to a reduction in the number of defaults without prohibiting loans to the most needy?

4. Does the Student Aid Commission, as California's guarantee agency, possess adequate resources and administrative tools to pursue default prevention aggressively?

5. Can structural or substantive changes in the program at the federal level help prevent defaults in California?

Although the various strategies that flow from these questions necessarily overlap and involve more than one party to the process, the above categories of participants may serve to classify the activities open to the Student Aid Commission in its default prevention efforts.

STUDENT BORROWERS

Five strategies that center on students in reducing defaults involve (1) restrictions on student eligibility, (2) improved information and counseling, (3) the use of credit bureaus to screen borrowers, (4) multiple disbursement of loan funds, and (5) sanctions against defaulters.

Restrictions on Student Eligibility

Current federal regulations require that students eligible for the Guaranteed Student Loan Program be enrolled at least half time, that they remain in

good standing, and that they make "satisfactory progress" as determined by their institution. In addition, if they are enrolled in a vocational or proprietary school, they must demonstrate the "ability to benefit" from its educational program. Clearly, the inclusive nature of these standards are meant to provide maximum access to Guaranteed Student Loans for all students. In particular, the "ability to benefit" is a vague concept that some institutions have used to enroll unqualified students. Currently no clear federal or State standards define "ability to benefit," although the California Student Aid Commission has proposed requiring institutions to publish their own definitions of "ability to benefit" in their consumer information material that they make available to prospective borrowers.

Another area of student eligibility involving default difficulties is the student status verification procedure. As noted earlier, students are required to notify lenders and institutions of changes in their name, mailing address, or enrollment status. The Student Aid Commission has substantially revised and upgraded its student status reporting requirements and now is able to act as an effective clearinghouse for this information. Its current regulations require semiannual reporting by institutions of these changes to the Commission. Institutions that do not comply within 90 days receive a warning letter, and at 120 days the Commission places an administrative hold on any new guarantees for them. One new regulation contemplated by the Commission would require schools to maintain records confirming student eligibility factors, in order to aid its investigation of possible cases of fraud. An additional proposed regulation would require institutions to verify students' maintenance of satisfactory progress before releasing their loan checks.

Improved Information and Counseling

The Student Aid Commission is required by law to provide consumer information to student borrowers. Its California Student Aid Workbook, which it publishes in both English and Spanish versions and distributes to all high school seniors in the State, outlines borrower responsibilities, but the primary aim of this workbook is to provide students with information about the availability of student aid rather than about their responsibilities and obligations in receiving loans. The Student Aid Commission does provide extensive consumer information at the time the loan is disbursed including a student brochure, the statement of rights and responsibilities appearing on the loan application, a promissory note which restates these conditions and a check list of borrower obligations at the time the loan is disbursed. But there remains limited information about how to make thoughtful and prudent use of borrowing to finance an education before applying for a loan. Misperceptions about borrowing remains widespread among students leading to false assumptions about the need not to repay Guaranteed Student Loans and/or the vigorous pursuit of default claims.

Improved counseling services, including entrance and exit interviews with all students participating in the program would be a valuable method for ensuring that students are aware of their responsibilities as borrowers and of the fact that defaulting on a loan may have serious consequences. The

ease with which most students qualify for a Guaranteed Student Loan may prompt their less than serious consideration of the responsibilities associated with it.

Among steps that the Student Aid Commission has taken to strengthen the information and counseling process is creation of a new Consumer Services section that is capable of answering telephone questions from students, institutions, and lenders. Currently this section is handling between four and five thousand inquiries a month concerning all phases of student aid, including Guaranteed Student Loans. In addition, it is issuing a series of informational brochures to the various participants in the program, including a proposed draft "check list," illustrated on the next pages, of areas to be dealt with when making and servicing loans; it is conducting workshops for both secondary school and postsecondary institution counselors, about loan processes and responsibilities; and it is attempting to simplify the Guaranteed Student Loan application form.

The Commission is also seeking to develop "debt burden" information and training for use by financial aid counselors and lenders. This is particularly important because excessive credit obligations may prevent student loans from being repaid. Information to determine if students are in danger of excessive indebtedness could potentially prevent them from over borrowing and possibly defaulting.

Use of Credit Checks and Co-Makers

Credit checks of students are not required prior to approval of Guaranteed Student Loans, and the fact that many borrowers simply do not have a credit history precludes a blanket requirement of credit approval for all borrowers. As a part of its default prevention plan, however, the Student Aid Commission is considering that credit checks be required of all student borrowers 21 years of age or older, and it has set standards for derogatory credit ratings. Under this plan, students who have negative credit histories would be denied a Guaranteed Student Loan. These derogatory credit checks would be valuable in reducing the default rate.

Currently, Guaranteed Student Loans are often not reported to credit bureaus until they are in default. Providing such information to a credit bureau at the time loans are disbursed -- or at the very least when they become due for repayment -- would reduce the possibility of students becoming overburdened with other debts, often resulting in a default claim. The Student Aid Commission should require the listing of Guaranteed Student Loans with credit bureaus at the time of disbursal to reduce default claims still further. The Student Aid Commission is also considering the requirement of a loan co-maker for borrowers under the age of 18. However, such a requirement would necessitate changes in state regulations, but more importantly, secondary markets will not purchase loans which have a co-maker. Loans with a co-maker require extended servicing and collection efforts thereby diminishing their value as financial instruments and effectively precluding co-maker requirements as a default prevention strategy.

D R A F T

STUDENT LOAN CHECK LIST
FOR COUNSELORS AND FINANCIAL AID OFFICERS

☐ USE CARE SELECTING A SCHOOL. To help prospective students make the best possible educational choice, each college or vocational school must provide student consumer information about the school's:

- -Academic and Training Programs
- -Financial Aid Programs
- -Tuition and Refund Policy
- -Faculty and Classrooms
- -Job Placement Information

Students should select the institution best suited to their educational and employment goals. Remember, the CGSL must be repaid even if a borrower does not graduate or is displeased with the education received.

☐ FINANCIAL PLANNING IS A MUST. Start early. Like any major purchase, obtaining an education requires students and their families to plan ahead. Discuss options with a financial aid counselor, or attend a financial aid workshop, often sponsored by local high schools or college financial aid offices. (The junior year of high school is not too soon!)

☐ A CGSL IS NOT A GIFT. By accepting a loan, a student makes a promise to repay the amount borrowed -- principal plus interest. A GSL is society's investment in the student's future. The public expects each student borrower to know the terms of the loan and repay the obligation as agreed.

☐ USE DISCRETION WHEN BORROWING. Excessive borrowing and unmanageable levels of debt are growing concerns for every borrower and financial aid officer. Borrow only what is needed.

- -Does the combination of debt from GSL, CLAS, NDSL and other student loans outweigh the borrower's future earnings and repayment ability?
- -Has the student sought assistance from scholarship, grant and work programs to reduce the need to borrow?

☐ APPLY EARLY AND COMPLETELY. The CGSL application, other forms and lender policies may be obtained from the financial aid office. Type or print all items. Incomplete, sloppy or inaccurate information causes delays in check delivery. Respond promptly to lender or school requests for additional information.

☐ KEEP COPIES - BE A WISE CONSUMER. Managing a financial obligation is a new experience for most student loan borrowers. Borrowers need to know the RIGHTS AND RESPONSIBILITIES associated with student loan borrowing. Having a loan means keeping copies of:

-Promissory notes
-Repayment Schedules
-Deferment Requests
-All Correspondence
-Rights and Responsibilities

☐ LOCATE A LENDER. Loans are provided by more than 100 banks, savings and loan associations, and credit unions. Lender policies vary so students should borrow from a lender that best meets the borrower's needs. Financial aid offices can often help students locate a lender.

☐ STAY WITH ONE LENDER, AVOID CROSS BORROWING. Default risk is greater when a student borrows from more than one lender. Monthly payments increase in size and number. The borrower also must keep <u>each</u> lender informed of changes.

☐ KEEP THE LENDER INFORMED. Having a problem with repayment? Moving? Establish a working relationship with the lender. A loan may be defaulted if the borrower does not notify the lender <u>within 10 days</u> of a change in:

-Permanent Address
-Enrollment Status
-Graduation Date
-School Attendance
-Deferment Eligibility
-Name

☐ WHEN REPAYMENT BEGINS. Repayment starts 6 months following the last day of attendance at the school. Whether graduating, transferring, or dropping out, each borrower must contact the lender and arrange:

-Repayment Schedule
-Deferment Eligibility
-Hardship extension (Forbearance)

☐ CALIFORNIA COLLECTS. Students perceive few penalties for defaulting....BUT the consequences are SERIOUS:

-No More Financial Aid
-No State Tax Refund
-Bad Credit Ratings
-Collection Agencies
-Court and Legal Action

Multiple Disbursement of Loan Funds

Many student borrowers receive the funds from their Guaranteed Student Loans in a single sum. Although this practice has a certain logic, in that many student expenses for fees, housing, and books occur at the initial stages of enrollment, the question exists about the effect of this practice on student persistence rates, particularly at institutions such as proprietary schools and Community Colleges that enroll students for short periods. With multiple disbursements, students who withdraw in mid-term would have lower repayment obligations, and the potential loss to the State in the event of a default would be reduced.

Currently, no requirement exists for multiple disbursement of Guaranteed Student Loans. A few lenders have implemented the idea -- among them, one of the top ten in terms of California Guaranteed Student Loan volume -- but doing so may make them less competitive with financial institutions that do not require multiple disbursements. Without a blanket requirement that loans be disbursed in increments, students may prefer to deal with lenders who do not do so. Perhaps significantly, none of California's five largest Guaranteed Student Loan lenders, who account for 76 percent of California's volume of these loans, require multiple disbursements.

The federal government believes that multiple disbursements make sense, and thus federal regulations allow lenders who make multiple disbursements to receive all interest subsidies and special allowances that they would receive using a single disbursement. An across-the-board requirement for multiple disbursement is being contemplated for inclusion in the reauthorization package for the federal Higher Education Act, but in the meantime the Student Aid Commission could require multiple disbursements of all lenders under current regulations. At present, it only requires schools that choose to act as lenders to make multiple disbursements, but the problem of lender competition will remain until all lenders are required to disburse loans in this manner. However, even if the Student Aid Commission adopted this policy, this would not prevent other guarantee agencies from operating in California with a single disbursement policy.

Sanctions Against Defaulters

Defaulters may be categorized into two groups in terms of taking action against them: (1) those who cannot pay even if they wanted to, and (2) those who <u>can</u> pay but refuse to do so. For the former, punitive actions are not likely to result in repayment because of their inability to pay. However, defaulters in the latter group, who refuse to pay either because of other priorities or because of a belief that the collection of Guaranteed Student Loans will not be pursued aggressively, are susceptible to administrative and legal action to compel repayment. Such sanctions, some of which have been implemented and some of which are proposed, include:

<u>Expanding State and Federal Income-Tax Refund Offsets</u>: The Student Aid Commission successfully recovered $653,170 during fiscal 1983-84 by having the Franchise Tax Board withhold State income-tax refunds up to the amount

defaulted of loan defaulters, despite the fact that the Franchise Tax Board is not allowed to reveal the addresses of defaulters because of the potential for violating right-to-privacy laws. This restriction means that although the Student Aid Commission receives tax-refund revenues, it does not receive important information about the whereabouts of defaulters who are not eligible for refunds. Further efforts are being made by the Student Aid Commission to authorize the withholding of State funds that are due defaulters from other State agencies such as the Board of Equalization and the Employment Development Department.

Actions being taken at the federal level to withhold income-tax refunds of defaulters have encountered a number of problems. Nonetheless, a federal tax-refund offset program has the enormous advantage of being able to locate borrowers who move from state to state or who do not file state income-tax forms, and it will not be subject to the same restrictions regarding privacy that operate at the state level, making subsequent locations of defaulters more likely.

Extending Federal Employee Salary-Offset Authority to State Employees: Currently, the Student Aid Commission has authority to garnish the wages of a defaulter only if a legal judgment has been brought against the defaulter. Since 1982, however, federal agencies have had the authority to garnish up to 15 percent of the wages or pensions of their employee defaulters until they repay their loan. State legislation would be required to allow the Student Aid Commission to similarly garnish the wages of defaulters who are State employees until the loans are repaid, but such legislation is desirable.

Increasing Interest Rates on Defaulted Loans to Prompt Repayment: Some evidence suggests that borrowers repay loans other than Guaranteed Student Loans simply because the interest is higher. Recent federal court decisions have concluded that the guarantee agency as holder of the loan has the authority to raise interest rates on the defaulted loan. Changes in state and federal regulations would be needed to implement this authority, and its across-the-board application would provide additional hardship to those defaulters who are unable to pay; but consideration should be given to it as part of the reauthorization of the federal Higher Education Act.

Discontinuing Loan Eligibility for Borrowers with Outstanding Defaults: Under current federal law and regulations, students cannot be denied Guaranteed Student Loans if they enroll in an institution other than the one with the outstanding default. Draft regulations have been proposed at the federal level to prohibit any borrower who is in default at any institution from receiving an additional loan unless satisfactory repayment arrangements have been made with the guarantee agency. These regulations warrant implementation.

Closing Bankruptcy Loopholes and Raising the Ceiling on Small Claims Court Judgments: Under Chapter 13 of federal bankruptcy regulations, student loans are considered unsecured credit, and typical repayment plans call for less than 20 percent of the outstanding loan balance to be repaid. Under other bankruptcy chapters, however, student loans cannot be discharged through bankruptcy until five years after repayment has begun. This five-year period could well be applied to Chapter 13, or Chapter 13 provisions could be modified to require 100 percent repayment of student loan obligations.

At the State level, the Student Aid Commission has begun a program of taking loan defaulters with loans of $1,500 or less to Small Claims Court. These actions have been successful, but the average student loan default is $2,500 -- which precludes efficient small-claims action against most defaulters. Legislation has been proposed in California to raise the small-claims limit. If adopted, this would permit the recovery of more outstanding student debts.

All of the above procedures for increased punitive action against defaulters require some degree of change in laws, regulations, or procedures, but these changes should be made in order to take action against those defaulters who have the ability to repay. Simply making the consequences of loan default more severe, however, will not alone stem the rise in default rates. The default problem results from a myriad of factors that occur at all points in the loan process, and merely "getting tough" with borrowers already in default may be too little and too late to prevent potential defaults effectively.

INSTITUTIONS

Two interrelated areas of possible default prevention that focus on institutions are (1) restrictions on institutional eligibility and (2) special requirements for those institutions with excessive defaults. The former policy area is governed largely by federal regulations, but the latter is directly subject to the Student Aid Commission's standards of compliance and are intregal to its default prevention program.

Restrictions on Institutional Eligibility

Federal regulations for participation in the Guaranteed Student Loan Program require that institutions sign a participation agreement specifying accreditation by a recognized accrediting body, admission of only qualified students to the program and the institution, and standards of conduct for the operation and administration of the program.

Federal law stipulates that all institutions accredited by nationally recognized accrediting bodies be eligible to participate in the Guaranteed Student Loan program. In order to operate in California, postsecondary institutions must meet minimum licensing standards, but California has no ability to limit institutions' licenses to operate based on their violation of Guaranteed Student Loan Program provisions. Furthermore, the only way that sanctions can be imposed on institutions in violation of State laws is through the lengthy and cumbersome process of judicial action. Thus, the Student Aid Commission is powerless to prevent schools with potentially high default rates from becoming licensed to operate in the state.

As noted earlier, federal regulations require that technical and vocational schools admit only those students who have the "ability to benefit" from

their educational offerings, but this vague standard has made it difficult to act against institutions that admit students who are woefully underprepared academically to succeed in the program and who drop out with a debt but little or nothing to show for the experience. The Student Aid Commission has requested that the federal government tighten this requirement when the Higher Education Act is reauthorized.

Special Requirements For High Default Institutions

Institutional compliance with standards of conduct, including audits, maintenance of records, providing consumer information, and administative capability and responsibility is required in order for institutions to continue to participate in all State and federal financial aid programs. However, the enforcement of these standards is not uniform for State and federal programs, and sanctions are difficult to impose under the current system. For instance, federal compliance reviews cover a range of problem areas and do not necessarily center on Guaranteed Student Loan policies, while the Student Aid Commission has been unable to maintain its own desired schedule of undertaking loan audits every two years because of limited staff resources.

For high default institutions, the Student Aid Commission is in the process of developing a program of special administrative requirements for institutions intended to reduce default rates:

1. Borrower Interview: Exit interviews of all Guaranteed Student Loan borrowers would be required prior to their leaving school.

2. Consumer Information: Information concerning the institution's programs, placement record, financial aid, admission standards, withdrawal rates, and default rate, would have to be made available to students prior to enrollment.

3. Warning Statement: A warning about the student's obligation to repay loans would be required on all documents and brochures containing information about Guaranteed Student Loans.

4. Institutional Records and Transcripts: Institutions could not release transcripts or records of students who have defaulted on a Guaranteed Student Loan.

5. Last Resort Financial Aid Program: A Guaranteed Student Loan could be included in students' financial aid packages only after all other means of aid have been exhausted.

6. Student Status Confirmation Reports: Institutions would have to issue their Student Status Confirmation Reports on a monthly basis so that withdrawals and early graduations are reported much earlier to lenders.

7. Institutional Response to Student Requests: Institutions would be required to respond to students' written requests for information or action within 30 days of receipt.

8. Institutional Response to Lender and California Educational Loan Program Requests: Institutions would be required to respond within 30 days to

verbal and written requests from the California Educational Loan Program or participating lenders for student status confirmations, address verifications, and address and job location assistance.

9. Completion of the California Guaranteed Student Loan Application: Once a student completes the California Guaranteed Student Loan application form, the institution could not make any changes on the application without the student's written permission.

10. Check Release Form: Institutions would have to use a special California Educational Loan Program check-release form if students want them to retain any loan funds for tuition and fee payments.

11. Holding of Applications and Loan Checks: Institutions would be (1) required to withhold the submission of loan applications to lenders until students complete the first two weeks of enrollment, (2) prohibited from delivering California Guaranteed Student Loan checks to students during the first two weeks of classes, and (3) prohibited from late disbursement of checks for students whose enrollment was less than two weeks.

12. Institutional Assistance in Loan Collection: The Commission would send lists of delinquent or defaulted borrowers to institutions, which would then have to urge borrowers by phone or letter to contact the lender or the California Educational Loan Program Processing Center to arrange for repaying their loan.

In addition, the Commission is currently considering establishing threshold default rates at which point a site visit and the above corrective actions become mandatory. For even more excessive default rates, the Commission would automatically begin limitation, suspension, and termination procedures against the institution. Such procedures would eliminate some institutions from participation in the program and thus deny some students access to their programs, but this ability to preclude institutions from participating based on their high default rates would be effective in limiting excessive defaults within these schools.

LENDERS

The necessity for all lenders to maintain consistent contact with borrowers during the in-school period as well as making every effort to bring the loan into repayment during the pre-claims period is crucial to preventing defaults. There have been concerns that the widespread participation in the California Guaranteed Student Loan program by large out-of-state lenders may contribute to a lack of lender/borrower contact. However, there is little evidence that a lender's origin of operations make any difference in its ability or willingness to properly service loans. Table 34 illustrates the extent to which out-of-state lenders currently participate in California's Guaranteed Student Loan program. The Student Aid Commission has imposed a moratorium on further participation by out-of-state lenders because of the difficulties inherent in auditing their activities. This moratorium does not relate to default prevention. Out-of-state lenders became active in California's loan

TABLE 34 Total California Guaranteed Student Loan Volume and Current Outstanding Loans of the Top 15 Lenders and Secondary Markets in California as of July 31, 1984

Lender or Secondary Market	Guaranteed Student Loan Volume Rank	Guaranteed Student Loan Volume Amount	Current Outstanding Loans Rank	Current Outstanding Loans Amount
Citibank	1	$ 724,257,871	1	$ 667,199,991
Chase Manhattan Bank	2	550,010,868	2	418,190,420[1]
Bank of America	3	334,659,543	5	97,547,406
Crocker National Bank	4	185,610,147	3	168,186,426
First Interstate Bank	5	179,163,482	6	74,032,177
Wells Fargo Bank	6	158,828,867	7	58,469,373
Security Pacific Bank	7	140,917,999	4	113,706,528
First Independent Trust	8	48,237,473	9	30,613,555
Marine Midland Bank	9	40,130,030	8	40,098,777
California First Bank	10	37,185,908	-	5,896,948
Chase Lincoln First Bank	11	20,761,401	10	20,419,403
Imperial Savings	12	16,484,992	11	16,482,856
Great Western Savings	13	15,190,193	12	15,190,193
Glendale Federal Savings	14	12,649,872	13	12,482,872
Union Bank	15	8,339,538	-	3,358,141
Secondary Markets		0		602,677,032[2]
TOTAL PROGRAM		$2,605,685,882		$2,443,256,512

1. Includes loans of approximately $64,000,000 held by Chase Manhattan Bank but serviced by the Academic Financial Services Association.

2. Represents loans held by five secondary markets, including $468,173,457 held by the Student Loan Marketing Association ("Sallie Mae").

Source: California Student Aid Commission.

programs because local lenders restricted student and institutional eligibility for Guaranteed Student Loans. Their continued participation should be restricted only to the extent that they be required to meet the same conditions and requirements that all lenders are subject to.

Lender Due Diligence

Federal regulations mandate that lenders take certain "due diligence" actions during the loan-making and servicing periods, and before loans become eligible for default reimbursement, they must also make a series of collection efforts.

Guarantee agencies may, however, require more numerous and more specific reporting and notification procedures than those of the federal government. The Student Aid Commission, through its Loan Study Council, has recommended implementation of a number of such measures that would concentrate on the pre-claims period and would require accelerated mail and telephone attempts at contacting borrowers as well as revised content of delinquency letters and pre-claims requests for assistance. In addition, as mentioned earlier, it has proposed a number of new notification procedures prior to the pre-claims period in order to maintain contact with borrowers throughout the life of their loans as well as to locate them promptly when their loans are ready to go into repayment.

The Student Aid Commission is concerned that some lending institutions may not devote the same measure of staff time and care in servicing their student loan portfolios as their other accounts. Under current regulations, the Commission cannot require lenders to maintain a certain ratio of service personnel to loans or loan volume that would be sufficient to keep the monitoring of accounts and record updating current.

Lender care in the making and servicing of loans is of particular concern because circumstances and incentives may work against their fully committed efforts. For example:

- Lenders know that their loans are guaranteed and that minimal efforts on their part will result in payment of the interest subsidy, special allowance, and the loan itself once in default. Coordinated and sustained effort by lenders to maintain contact with borrowers and inform borrowers of their financial obligations is integral to controlling excessive default rates.

- In addition, some lenders sell their loans to secondary markets just prior to the time when repayment is due and when maximum servicing is required, resulting in large portfolios of student loans being serviced at critical periods by lending institutions that did not originate them or service them while the students were in school.

CALIFORNIA GUARANTEE AGENCIES

Default prevention by the Student Aid Commission includes a number of current activities as well as proposed and possible initiatives. The scope of these activities and proposals indicates the Student Aid Commission's belief that default prevention must be pursued at a number of points in the loan process and involve students, institutions, and lenders.

Current Student Aid Commission Activities

The Student Aid Commission has initiated the following elements in its default prevention program:

- As noted earlier, a new operational procedure is in effect for institutions that do not submit their Student Confirmation Reports on time. If the Commission does not receive the reports within 60 days, it sends the institutions a reminder letter. After 90 days, it sends a warning letter, and, if it does not receive the reports after 120 days, it places an administrative hold on new guarantees for students attending the institutions until the problem is resolved.

- It has scheduled workshops for high school, vocational school, and Community College financial aid counselors to inform them of loan processes, assist them in helping prevent defaults, and give them a basic understanding of borrowers' legal responsibilities.

- It has scheduled workshops for operational-level staff of both institutions and lenders to give them "nuts and bolts" information about program requirements and procedures.

- It has initiated an offset program with the Franchise Tax Board whereby the Commission receives tax refunds owed to defaulters.

- Last year, it began taking defaulters owing $1,500 or less to Small Claims Court.

- It gives the names of all defaulters to two national credit bureaus.

- On January 1984, it established a fraud investigation unit.

- It is obtaining current addresses of defaulters through the Internal Revenue Service.

- It has begun matching Guaranteed Student Loan applicants against Cal Grant applicants, so that Cal Grant managers will know if any Cal Grant applicants have defaulted on guaranteed loans, and so that loan program staff will acquire up-to-date addresses of defaulters.

- It gives the State Controller's Office a list of borrowers who have defaulted on loans, so that the Controller can match this list against a list of State employees. Employees are subsequently contacted to arrange for repayment of their defaulted loan.

Proposed Student Aid Commission Activities

The Student Aid Commission has proposed:

- Requiring institutions to maintain records confirming student eligibility factors (Regulation 30500).

- Requiring institutions with an established default problem to conduct exit interviews with all borrowers before they leave their program (Regulation 30501).

- Requiring institutions to verify the student's maintenance of satisfactory progress prior to the release of Guaranteed Student Loan funds (Regulation 30502).

- Limiting additional out-of-state lenders to those that demonstrate that at least part of their participation in the California Educational Loan Program will fill an unmet need.

- Prohibiting the assignment of serial or follow-up loans to different lenders or a secondary market.

In addition, it has contracted with a market research firm to develop a communications and information plan for default prevention, and it has drafted procedures for institutional use of delinquent and defaulted borrower information, so that institutions may contact these borrowers and encourage them to repay their loans.

Possible Student Aid Commission Activities

In addition to these current proposed activities, provisions exist for more direct sanctions by the Student Aid Commission against institutions and tenders violating Guaranteed Student Loan Program regulations, including their limitation, suspension, or termination of program participation. Limitation, suspension, and termination proceedings may, for example, limit an institution's participation in the program to its previous year's volume of loans, suspend its participation until such time as violations are corrected, or completely terminate its participation.

Initially, the Student Aid Commission did not have its own procedures for limitation, suspension, and termination but instead used federal regulations as its guidelines. The Commission first promulgated its own regulations in 1982, but its inability to reach agreement with the Office of Administrative Law over their wording kept the regulations from being in place until November 1984.

The lack of these regulations has damaged the Commission's ability to deal with institutions and lenders who abuse the program -- and particularly with those institutions that have inadequate refund policies or that are subject to program violation complaints from students or lenders. The Commission has been concerned that it will be challenged legally by such institutions and has sought clarification of its legal position and resources before proceeding to implement its regulations. While its concerns are understandable, the future effectiveness of program sanctions will depend on their implementation. So far, the Student Aid Commission has not proceeded against any institution, in part because it believes that federal sanctions against program violators are more effective because those sanctions apply to the full range of an institution's financial aid operations. This argument must be questioned, since it effectively prevents the State from imposing any sanctions at all against Guaranteed Student Loan program violators.

The Student Aid Commission has continually stated its need for additional staff, both for administration of the Guaranteed Student Loan Program and for default prevention and recovery. Its lack of staff has undoubtedly hurt its ability to respond properly and on a timely basis to program abuses or pursue default activities. Currently, its staff resources and management practices are being examined for the Legislative Analyst by Price Waterhouse and Co., whose report, due in final form in June 1985, should contain recommendations on staffing to effectively pursue activities.

Other Guarantee Agencies Operating in California

Although the intent of current federal education law is that guaranteed agencies operate on a state-by-state decentralized basis, it is possible for guarantee agencies other than the Student Aid Commission to operate in California. Two external guarantee agencies operate in California -- United Student Aid Funds (USAF) and the Higher Education Assistance Foundation (HEAF) -- and they currently account for a small percent of the total loan volume guaranteed. Difficulties with the participation of other guarantee agencies arise from the fact that actions required of the Student Aid Commission in the operation of its loan program may not be applicable to other guarantee agencies. For example, a requirement that all loans be disbursed in increments or that action be taken against institutions with excessive default rates may not be applicable to other guarantee agencies. Furthermore, efforts taken by the State to curb program abuses through the Student Aid Commission may result in certain institutions using alternative guarantee agencies for their students rather than complying with such directives. While there is nothing inherently wrong with competition between guarantee agencies, it is important that those measures designed to reduce or prevent defaults be applied across the board to all guarantee agencies.

THE FEDERAL GOVERNMENT

The Guaranteed Student Loan Program is a federal program that is driven by federal regulations which determine student, institution, lender, and state guarantee agency eligibility. Thus changes in federal regulations that affect eligibility are likely to affect state efforts to prevent defaults.

For example, as mentioned above, the federal government requires that vocational and technical schools which admit students without a high school diploma or its equivalent demonstrate that students have the "ability to benefit" from the program, but some modifications that have been proposed for the purpose of clarify this requirement would in fact weaken the need to document this ability to benefit. They would restrict the right of program auditors to demand a clear demonstration that individual students are being served by the program -- thereby making efforts at preventing program abuses more difficult.

Similarly, one of the indicators of institutions' "administrative capability and financial responsibility" has thus far been their default rate, but other proposed changes in federal regulations would remove that criterion on the ground that because institutions are not themselves responsible for servicing Guaranteed Student Loans, their high default rate may not in fact indicate impaired administrative capability or financial responsibility. Again, this change would signal to institutions with excessive default rates that they need not be concerned about their students' defaults because these defaults are not their responsibility.

Such examples demonstrate not only the role of the federal government in defining the criteria for program participation but also the effect that changes in federal regulations can have on efforts at default prevention.

Financial Incentives for Default Prevention

A number of possible federal financial incentives could contribute to lower default rates: First, borrowers could be given a financial incentive for early repayment, since the federal government would have to pay less in special allowance fees to lenders and could thus afford to reduce the total obligation of borrowers who pay their loans off early. (Unfortunately, the financial incentives for students run mostly in the opposite direction, since loans with interest rates of 8 or 9 percent are worth retaining for repayment with inflated dollars. Moreover, students generally do not have the resources to begin repayment prior to their time the loans are due or to increase their monthly payments in order to retire their loans early.)

Second, the federal government could aid borrowers who find themselves overburdened with large monthly payments by extending their ten-year repayment limit. Students with $25,000 of educational loan debts currently must pay over $300 each month in order to repay their debts within ten years. A graduated repayment schedule can help reduce initial monthly payments somewhat, but the rapid rise in payments after a relatively short period often makes it difficult for borrowers to maintain a graduated schedule. One suggested solution has been simply to extend the repayment schedule beyond the ten-year limit; but the increased costs to the government from special allowance payments would make this alternative more costly than current practice. This increased cost could be offset by increasing interest rates from the current 9 percent to 10 or 12 percent for those loans with extended repayment periods. Variations on this idea could include a predetermined cap on federal special allowance payments under an extended repayment schedule or a reduced special allowance yield to lenders at the time of origination in exchange for the increased income from a longer term note with higher interest rate.

In addition to incentives for borrowers and lenders, the federal government could offer an incentive to institutions by making an administrative cost allowance available to those institutions that establish default prevention programs. Such allowances are currently allowable under federal regulations, but they have never been funded since institutions are not parties to the loan process and thus have no direct liability for defaults. The utility of paying a special allowance to institutions thus remains an open question, but efforts by institutions to prevent defaults should be encouraged, and incentives for default prevention programs are worth trying.

Removing Program Confusion

The Guaranteed Student Loan Program has evolved over a quarter-century, during which its regulations have caused it to become extremely complex. Two policies that currently suffer from this welter of confusion are allowable grace periods and the nature of loan repayment deferments.

Allowable Grace Periods: Current regulations call for grace periods before repayment of six, nine, ten, eleven, and twelve months, depending on the terms of the promissory note. Many students have multiple loans with different grace periods, resulting in confused repayment schedules. This problem

could be simplified legislatively by giving all borrowers a nine-month grace period.

Statutory Loan Repayment Deferments: Loan repayment deferments in statute include continuing to pursue undergraduate or postgraduate work, joining the Peace Corps, serving in voluntary organizations, serving in the Armed Forces, and the inability to find full-time employment. A limited number of generic deferment categories -- such as continued schooling, public service, and unemployment, together with consistent eligibility requirements -- would clarify this welter of specific deferments.

PUBLIC POLICY AND DEFAULT PREVENTION

The public's perception of the Guaranteed Student Loan Program is unfortunately all too often that of a give-away gone wild, with taxpayers being bilked for billions of dollars by deadbeat students. This perception is incorrect: The vast majority of students who use Guaranteed Student Loans to finance their education do not default on their obligations. There can be little doubt that many such students need access to subsidized loans if they are to be able to attend college, and it makes little sense for a program in such widespread use to be jeopardized by a misunderstanding of its goals and its successes. Nonetheless, default rates for the program have risen dramatically in recent years, and because they are likely to continue to do so, sound public policy regarding the program requires an understanding of the complexity of the default problem and the limits within which action to prevent defaults may be taken.

Currently, four fundamental limitations exist to default prevention in California:

1. The goals of the Guaranteed Student Loan Program -- increased educational access and choice -- work against efforts to reduce defaults, in that the program is more than a convenient financial arrangement for students who are unlikely to default. It seeks to provide educational opportunity to a broad spectrum of students who, with declining support from other types of financial aid, must rely on loans to financing their education.

2. Federal regulations for the program guarantee access to "high risk" students as well as institutions.

3. Financial incentives for lenders that are intended to insure the availability of sufficient loan capital -- interest subsidies and special allowance payments -- encourage expansion of the program, yet there is little understanding that the major cost of the program is for these incentives rather than for defaults.

4. The increase in default rates parallels the enormous growth in the program itself and will continue until students gain other means of financing their education than through guaranteed loans.

Efforts to control defaults must also recognize the different incentives of each of the participants in the process.

- Student borrowers face growing loan obligations and possible punitive actions for debts they have incurred, sometimes with little information or understanding of their obligations. They naturally feel that default prevention efforts should focus on information and counseling at the "front end" of the loan process rather than further punitive measures at the "back end."

- As business entities, lenders are primarily concerned about assuring an adequate return on their investments. With the exercise of a minimum of effort, they can meet this objective, since they are engaging in financial transactions regulated and subsidized by the government, for which they do not bear ultimate responsibility.

- The Student Aid Commission feels it is caught between its mandate to fulfill the goals of the program while simultaneously reducing default rates. Through its Default Prevention Plan, it is taking a number of steps designed to curb the growing number of defaults, since it views no single factor as the cause of excessive default rates and believes that a comprehensive prevention program is needed to attack the problem. It contends that a lack of adequate staff for the program is a major factor in its inability to pursue those institutions and individuals who abuse the program. It also claims that many of the remedies for program abuse must come through federal and State regulatory or statutory changes which cannot be accomplished quickly.

There is merit to these arguments of the Student Aid Commission, but the continued inability of the Commission to bring sanctions against institutions with severe default problems cannot stem entirely from staff shortages and needed changes in law or regulation. Of all the actions that anyone can take to assure the continued success of the Guaranteed Student Loan Program, the most urgent is for the Student Aid Commission to implement its own proposals for imposing special administrative requirements on institutions with excessive dropout rates in order to demonstrate its ability to address the problem of default prevention.

SIX

CONCLUSIONS AND RECOMMENDATIONS

The preceding sections of this report have described the structures and procedures of California's Guaranteed Student Loan Program; examined the characteristics of students who participate in the program; discussed the issues of debt burden, debt management, and defaults; and assessed the current and proposed efforts to prevent defaults and recover defaulted loans.

In its charge to the Postsecondary Education Commission through Senate Resolution 34, the Legislature requested the Commission's findings and recommendations on the following subjects:

- State and federal policy and practice related to default prevention and recovery;
- the appropriate role of student loans in financial aid packages;
- the appropriate distribution of student loans among the segments of postsecondary education in California; and
- licensing and review procedures for schools that rely heavily on guaranteed student loans and have high default rates.

In this final part of the report, the Commission discusses its findings and recommendations in each of these areas, starting with the latter two -- the appropriate distribution of loans among the segments, and institutional licensing and review procedures. In the subsequent sections, it then focuses on the three areas that it believes are central to improving California's Guaranteed Student Loan Program: (1) better debt management; (2) strengthened default prevention and recovery; and (3) better information about the Guaranteed Student Loan Program.

DISTRIBUTION OF LOANS AMONG THE SEGMENTS

In its discussion of borrower and defaulter characteristics in Parts Two and Four above, the Commission reported that:

- Little discrimination exists against loan applicants from different segments.
- By 1983-84, more than 28 percent of Guaranteed Student Loans were made to students at independent colleges and universities, compared to 25 percent at proprietary or private vocational schools, 18 percent at the California State University and 12 percent each at the University of California and the Community Colleges.

- In terms of dollars borrowed, students who attended independent institutions and those who attended proprietary schools each borrowed about a quarter of the total, compared to 17 percent for those at the State University, 12 percent at the University, and 10 percent at the Community Colleges.

- Default rates vary dramatically among the segments, with the four-year colleges -- both public and independent -- having rates of below 10 percent, compared to 20 percent for Community Colleges and 26 percent for proprietary institutions.

- Four-year colleges and universities have many fewer defaults than would be expected, given their share of loans. Together, they account for 60 percent of California's matured loans but only 37 percent of loan funds in default. Community Colleges account for 14 percent of the loans but 21 percent of the defaults, and -- most dramatic -- proprietary schools account for nearly 35 percent of the defaults, or twice their 17-percent share of matured paper.

The Guaranteed Student Loan Program is, in effect, an entitlement program. That is, federal statutes and regulations make clear that its intent is to assure participation of all students who meet the basic eligibility criteria, regardless of segment of attendance. This intent is currently being fulfilled in California, and the Commission sees no need or reason, on the one hand, for guaranteeing particular segments either a dollar amount of loans or a share of the total -- or, on the other, for restricting segments in terms of dollars borrowed or share of volume. Therefore, the Commission advocates:

> RECOMMENDATION 1: At this time, the State should not establish policies or procedures that would guarantee or restrict loan amounts or shares to particular segments.

The Commission does not intend by this recommendation to limit the Student Aid Commission's responsibility to restrict the participation of particular schools that are unable or unwilling to participate in the Guaranteed Student Loan Program within acceptable limits, as described in later recommendations.

INSTITUTIONAL LICENSING AND REVIEW

In reviewing institutional eligibility for participation in the Guaranteed Student Loan Program, the Commission found that:

- Federal law allows all institutions accredited by nationally recognized accrediting agencies to participate in the program, but these accrediting agencies do not consider the quality of an institution's financial aid program as a condition of accreditation.

- In order to operate as an educational institution in California, certain State licensure or accrediting agency standards must be met, but those

standards also do not consider the kind or quality of an institution's financial aid program.

- The only sanctions currently available against institutions that violate Guaranteed Student Loan Program provisions are through the lengthy and cumbersome process of litigation.

- No clear relationship exists between default rates and institutions' accreditation or licensure status. For example, in the two segments with the highest default rates -- the Community Colleges and the proprietary schools -- nearly 90 percent of the Community Colleges that participate in the Guaranteed Student Loan Program and that are regionally accredited by the Western Association of Schools and Colleges have default rates of more than 10 percent, while less than half of the participating proprietary schools have default rates this high.

The policies, procedures, and recommendations for limiting the participation of institutions that do not fulfill Guaranteed Student Loan Program requirements apply only to the Guaranteed Student Loan Program. The Commission believes that these provisions, if fully implemented, will resolve many of the problems related to the Guaranteed Student Loan Program. Thus the Commission has concluded that the larger issue of whether the operation of institutional financial aid programs should be a factor in determining institutional accreditation or licensure is beyond the necessary scope of this report.

DEBT BURDEN AND DEBT MANAGEMENT

In attempting to determine the appropriate role of loans in student aid packages, the Commission has examined in Part Three of this report the current role of loans in financial aid packaging, the extent of student debt burdens, and issues of debt management. It has found that:

- On the average, loans make up 20 percent or less of the total resources used by financially dependent students to cover their educational costs and less than a third of the total resources used by independent students for these costs.

- Students appear to make maximum use of parental support, work earnings, and grant aid in financing their education before taking out loans.

- The vast majority of California Guaranteed Student Loan borrowers -- both those currently enrolled and those who have completed their program and have begun repaying their loans -- have Guaranteed Student Loan obligations of $5,000 or less.

- The average indebtedness of currently enrolled borrowers is higher than that of borrowers who have begun repayment, indicating a trend toward increasing reliance on borrowing.

- The level of student loan debt that theoretically is manageable varies with the level and type of degree earned.

- Current maximum student loan limits may exceed the capacity of some categories of borrowers to repay their loans comfortably under current repayment provisions.

Thus, in response to the Legislature's concern about the appropriate role of loans in financial aid packages, the Commission concludes that there is no absolute answer to the question of appropriate role, since the answer will differ for undergraduate versus graduate students, for those who enroll in high-cost versus low-cost institutions, and for those with access to other funding sources such as parents, employment, and grants.

Ideally, family and student financial resources and grant aid would cover college costs so that students would not need loans to finance their education. This ideal is unlikely to be achieved, however, in the foreseeable future. For example, to eliminate Guaranteed Student Loan borrowing in California would require at least $660 million each year from some combination of increased family and student resources, additional financial aid, or reduced educational costs. As a result, of necessity loans must play a role in financing the education of a sizable proportion of students.

Nonetheless, the Commission believes that, in the aggregate, students may be borrowing more than is prudent and that they may not be fully aware of the long-term implications of borrowing to finance their education. Therefore, in order to reduce the level of "unnecessary" borrowing and at the same time assure that loan resources are available to students who need them to attend college, the Commission concluded that three steps should be taken to keep debt burdens manageable: (1) better counseling; (2) modifying repayment provisions; and (3) basing eligibility on demonstrated need.

Better Counseling

The Commission believes that students, their families, the schools they attend, the Student Aid Commission, and lenders all share responsibility for deciding whether loans are an appropriate resource for students in financing their education. In order for all of these parties to effectively undertake this responsibility, the Commission proposes:

> RECOMMENDATION 2. All Guaranteed Student Loan applicants and recipients -- whether they receive other forms of financial aid or not -- should receive personalized counseling about borrowing and its implications. When the initial loan is taken out, students should be provided with information about (1) consumer rights and responsibilities about student loans, (2) the date repayment will begin, (3) the length of the repayment period, (4) alternative repayment provisions, (5) options for deferring repayment, and (6) the relation of repayment obligations to typical starting salaries. This information should be updated each time students borrow. When the borrowers have completed their program, they should receive a final review of (1) their total loan obligations from

all sources, (2) the repayment schedule for each loan, (3) the number of separate payments required each month, (4) the total monthly repayment obligations, (5) the length of the repayment period, and (6) the ramifications of failing to repay the loan.

The Commission also believes that this kind of information will be most effectively provided to students in person, either individually or in group presentation, with the opportunity for questions and answers. Officials of postsecondary institutions have expressed concern about the administrative and cost burdens of providing such information orally, since many institutions, and particularly large ones, administer much of their financial aid program -- grants, loans, and work study -- through the mail. Unless problems arise, they offer little individual counseling of aid recipients. Furthermore, they often treat the large numbers of Guaranteed Student Loan recipients who receive no other aid differently from those who also receive institutional aid. Typically they provide briefings on loans and their implications for students who receive institutional grant or loan funds, but if students receive only Guaranteed Student Loans, they may not receive anything but written information. In addition, many lenders have no personal contact with borrowers at any point during the application process or in-school period.

Given the large number of Guaranteed Student Loan recipients and the fact that they receive loans throughout the year rather than at the one or two periods during which need-based aid is distributed, new administrative costs may have to be incurred to provide this kind of information and interaction. The Commission has concluded that such costs are warranted in order to provide students with adequate information about borrowing and its implications, since improved awareness on the part of students should reduce the use of loans and lower default rates -- either of which would represent sufficient savings to cover these costs. Either lenders, institutions, or the Student Aid Commission could take the initiative for providing this counseling. Whoever undertakes the responsibility should be prepared to document its costs, if any, and request resources to cover them from the State or federal governments.

Modifying Repayment Provisions

At least three options for modifying repayment provisions offer apportunities to make student debt more manageable:

Graduated and Variable Repayment: Currently, lenders may modify repayment provisions to allow for graduated or variable payments, as long as loans are fully paid back at the end of the ten years mandated for full repayment in statute. Few lenders exercise this flexibility.

Consolidation: Until recently, the Student Loan Marketing Association was authorized to consolidate loans from a variety of lenders and to develop alternative repayment provisions, including fixed or variable repayment and extended repayment periods but currently consolidation is precluded under provisions of federal law.

Extended Repayment: Whether in combination with graduated or variable payments or with reinstituted consolidation, another modification to current statutory repayment provisions would be simply to extend the repayment period. The discussion in Part Three illustrated that this extension would more realistically reflect the ability of recent graduates to pay than present restrictions and would increase the amount that students can realistically be expected to repay. Extending repayment beyond ten years might increase federal costs for special allowances, but the default rate might be lower and result in lower overall federal costs.

In any case, creative use of variable repayment, loan consolidation, and extended repayment periods could all contribute to the ability of borrowers to manage their student loan obligations.

Because the Commission is concerned that, for some students who must borrow to finance their education, current repayment provisions may make their debt obligations more onerous than they need to be, it suggests:

> RECOMMENDATION 3: The federal government, the Student Aid Commission, and lenders should implement needed changes to policies, practices, and statutes to encourage flexible repayment provisions, including variable repayment, extended repayment periods, and loan consolidation. The details of these changes should be based on known information about employment and earning patterns of recent college graduates.

Linking Eligibility to Demonstrated Need

The Commission believes that further attention should be given to basing eligibility for Guaranteed Student Loans on demonstrated financial need. Currently, students who come from families with incomes of less than $30,000 a year are entitled to a Guaranteed Student Loan regardless of their financial resources or college costs, while other students must demonstrate financial need.

Information is not now available on the number of current Guaranteed Student Loan recipients who could not demonstrate need if all were required to do so. This information needs to be obtained as well as facts about alternative sources of financing educational costs that could be substituted for loans if loans were restricted. To understand the relations of financial need to borrowing and future indebtedness requires more facts than now exist about whether "unnecessary" borrowing is occurring and whether making all loans need based would reduce "overborrowing" and reduce total individual indebtedness. Nonetheless, the Commission believes that publicly funded financial aid programs should focus on students with demonstrated financial need. Therefore, it proposes:

> RECOMMENDATION 4: Eligibility for participation in the Guaranteed Student Loan Program should require demonstration of financial need on the Guaranteed Student Loan application by all applicants

rather than only those from families with incomes of more than $30,000.

In addition, while the Commission recognizes the failure of grant and work aid to keep pace with rising educational costs, it believes that the long-term implications for raising loan limits are inconsistent with students' economic prospects immediately after college and may serve to influence educational and career choices inordinately. Therefore, it advocates:

RECOMMENDATION 5: The amount students may borrow each year should be limited to the amount of financial need as shown on the Guaranteed Student Loan application, and in no case should exceed the current annual maximums of $2,500 for undergraduate students and $5,000 for graduate students.

DEFAULT PREVENTION

As indicated in Part Five, significant barriers to default prevention exist not only in law but in the policies that underpin the regulatory structure of the Guaranteed Student Loan Program. Nevertheless, steps can be taken under current regulations that could have significant long-term impact on default rates in California. The Commission offers its recommendations about these steps in terms of the parties to the loan process -- students, lenders, institutions, the Student Aid Commission and other guarantee agencies, and the federal government -- and it seeks to emphasize those steps of greatest potential impact and timely implementation.

Students

Beyond improved information for students, advocated in Recommendation 2 above, the multiple disbursement of loan funds can directly affect the ability of students to deal responsibly with their loan obligations. Evidence suggests that the majority of defaulters are first-time borrowers who fail to complete their educational programs. Through the multiple disbursement of loan funds, the State would be protected against the loss of the full amount of their loans. The Commission believes that this benefit outweighs any contrary fee policies of educational institutions or the administrative convenience of financial institutions.

A number of options exist for implementing a requirement that all Guaranteed Student Loan funds be disbursed in increments, and current regulations allow this policy to be mandated by a state's guarantee agency. Therefore the Postsecondary Education Commission proposes:

RECOMMENDATION 6: All guaranteed loans made in California should be disbursed in increments over the educational period to which the loan applies, and the California Student Aid Commission should

determine the manner of disbursal based on the length of the educational program and the occurrence of student costs.

One consideration in the Student Aid Commission's determination should be increased incentives for students to complete their program and thus increase their ability to repay their loan obligations. Another consideration should be to reduce the total dollars at risk, particularly for students who do not complete the educational program for which their loan was made.

Institutions

Any cooperative effort to reduce defaults must include specific actions by and against institutions with excessive default rates. The program of special administrative requirements for such institutions currently under consideration by the Student Aid Commission will begin to affect institutional practices that contribute to high default rates, but the Student Aid Commission must first establish a definition of "excessive" defaults. Such a threshold should not preclude action against large numbers of institutions, but it should be sufficiently limited to allow the concentration of Student Aid Commission resources on the worst abuses. Many of the requirements in the proposed program are actions that could and should be taken by all participating institutions regardless of their default rate.

The Student Aid Commission has established a schedule for applying administrative actions and corrective measures, based on default rates ranging from zero to over 30 percent. Examples of these administrative actions include required workshop attendance and compliance reviews at default rates between 15 and 20 percent, mandatory on-site reviews and monitoring of institutional operations between 20 and 25 percent, administrative reviews with institutional management between 25 and 30 percent, and mandatory limitation, suspension or termination of program participation above 30 percent. Any such schedule should realistically reflect the ability of the Student Aid Commission to take the needed actions and thus place institutions on notice that such actions can and will be forthcoming. Therefore the Postsecondary Education Commission proposes:

RECOMMENDATION 7: All institutions participating in the California Guaranteed Student Loan Program should implement applicable provisions of the Student Aid Commission's proposed program of administrative actions to reduce defaults; all institutions above the statewide average default rate should be subject to these actions; and institutions with excessive default rates that do not take corrective measures as delineated in the proposed program should be subject to limitation, suspension, and termination proceedings.

Lenders

The efforts of lenders, in concert with the Student Aid Commission, to require increased contacts between lenders and borrowers during the in-school

period as well as increased efforts to bring loans into repayment prior to making default claims indicate the increased awareness of lenders to their responsibility in reducing default rates. Despite this increasing awareness, the relationship between lender practices and default rates remains unclear. Currently, the information available about lender participation is limited to aggregate statistics. In order to fully understand this aspect of the program, more detailed information is required. Therefore the Commission suggests:

RECOMMENDATION 8: The Student Aid Commission's recommended due diligence requirements should be implemented and required of all lenders making Guaranteed Student Loans in California, and these lenders should report annually to the Student Aid Commission data including (1) comparisons of the loan servicing practices and ratios of originating lenders and secondary markets, (2) practices for maintaining contact with borrowers, and (3) practices related to the sale of loans to secondary markets.

The California Student Aid Commission

Current default prevention activities by the Student Aid Commission should be encouraged and adequate resources provided for their ongoing activities. There presently exists no consensus as to the staffing levels needed both to administer the Guaranteed Student Loan Program and to prevent and reduce defaults. In order to bring action against the worst abuses of the program, it may be necessary for the Student Aid Commission to focus its resources. Therefore the Postsecondary Education Commission recommends:

RECOMMENDATION 9: If the Student Aid Commission lacks sufficient resources to apply administrative sanctions against all institutions in excess of the statewide average default rate, it should document this need and to the degree that such resources are not forthcoming should place primary emphasis on those institutions that demonstrate a consistently excessive rate of loan defaults.

A management and resources study of the Student Aid Commission currently being conducted by Price Waterhouse for the Legislative Analyst should clarify the internal staffing and management needs of the Student Aid Commission as a whole and the role of the Guaranteed Student Loan Program within this structure. The Postsecondary Education Commission believes that an identification of the resources available to the program for funding and staffing its future needs is essential. Therefore the Postsecondary Education Commission urges:

RECOMMENDATION 10: The Student Aid Commission should develop and make available to the Legislature and appropriate fiscal agencies a management plan for the Guaranteed Student Loan Program that is consonant with its own planned default prevention and recovery activities and the recommendations in this report.

The Student Aid Commission should also move decisively in implementing its limitation, termination, and suspension procedures. While assurance that such procedures will have strong legal backing and resources is important, it is not as critical as the need, after excessive delays, for the State's guaranteed agency to demonstrate a willingness to employ these procedures. Therefore the Postsecondary Education Commission advocates:

RECOMMENDATION 11: The Student Aid Commission should without delay begin limitation, suspension, and termination proceedings against those institutions with excessive program abuses, including high default rates.

Other Guarantee Agencies

All efforts to reduce defaults must have equal application to all participants in the program. Those recommendations requiring specific action by the Student Aid Commission must also apply to other guarantee agencies operating in California. This includes requirements for data collection and reporting as well as administrative actions to prevent defaults. In order to insure that all guarantee agencies are consistent in their practices, the Postsecondary Education Commission suggests:

RECOMMENDATION 12: All agencies that guarantee student loans in California should meet those common standards and practices required of the Student Aid Commission. If the uniform application of administrative requirements by all guarantee agencies operating in California is not forthcoming, legislation should be enacted prohibiting those guarantee agencies not in compliance with State standards from guaranteeing student loans in California.

The Federal Government

As discussed in Part Five, recently proposed changes in federal regulations dealing with institutions with high default rates would appear to weaken substantially the Student Aid Commission's ability to initiate sanctions against these institutions. Although there are areas in the proposed regulations that would tighten loan eligibility for students with outstanding defaults and allow better tracking of such students between states and institutions, the overall thrust of the proposed regulations would be detrimental to California's efforts to reduce defaults. Therefore the Postsecondary Education Commission recommends:

RECOMMENDATION 13: The proposed changes in federal regulations should be modified to strengthen efforts to bring sanctions against institutions with high default rates. In particular, default rates should continue to be one of the factors considered in the determination of whether administrative or legal limitations on institutional participation should be implemented.

This issue and many others will be dealt with during the reauthorization of the Federal Higher Education Act. The Postsecondary Education Commission has convened a task force to consider these issues and make recommendations for California higher education regarding them as well as federal funding levels. The principal activity of the federal government in higher education is the provision of financial aid, and because the Guaranteed Student Loan Program is the largest of these aid programs, as well as because changes in program eligibility and incentives for participation at the federal level could have long-term effects on the ability of California students to meet the cost of postsecondary education, close cooperation between postsecondary officials in California and representatives and officials in Washington during the reauthorization period is essential.

DEFAULT RECOVERY

Improved location of loan defaulters and the recovery, where possible, of defaulted loan funds will require changes in existing regulations and laws at both the Federal and State level. However, in making these changes, the distinction between those who cannot pay and those who refuse to pay must be maintained, with the default recovery resources of guarantee agencies directed toward the latter group. Therefore, the Commission urges:

RECOMMENDATION 14: Measures designed to bring defaulted loans into repayment should be concentrated on efforts to locate defaulters and should be directed at those who have the ability to repay rather than on increased overall sanctions such as raising interest rates on defaulted loans.

RECOMMENDATION 15: Increased sanctions against loan defaulters who demonstrate the ability to repay should include (1) expanding State and federal income-tax refund offsets, (2) extending federal employee salary-offset authority to State employees, (3) discontinuing loan eligibility for borrowers with outstanding defaults, (4) closing bankruptcy loopholes, and (5) raising the ceiling on small claims court judgments.

IMPROVING THE QUALITY OF INFORMATION ABOUT THE GUARANTEED STUDENT LOAN PROGRAM

The Commission's review of issues related to Guaranteed Student Loans has been handicapped by limited access to information about both lenders and borrowers, including applicants, recipients, repayers, and defaulters. Some information about institutions, such as their students' participation in the program and their defaults, is available, but these institutional characteristics are only part of the elements necessary to make a judgment about the causes of default.

Although the Guaranteed Student Loan application forms contain a wealth of information on the demographic, financial, and academic status of applicants, borrowers, and defaulters, little of this data is available for research. As a result, detailed descriptions of the characteristics of the different groups of students who participate in the Guaranteed Student Loan Program and comparisons of their repayment and default patterns is impossible. Furthermore, data-based conclusions cannot be drawn about which kinds of students are most dependent on loans, the degree of their indebtedness, and the role that loans play in their financial aid packages.

The Student Aid Commission is currently reviewing the provisions of its present data processing contract for the Guaranteed Student Loan Program. This review provides the opportunity to obtain these needed data. Without this capability, targeting default prevention and recovery strategies in the most cost-effective manner is impossible. To this end, the Commission proposes:

RECOMMENDATION 16: The Student Aid Commission should make available upon request on an annual basis summary data tapes of individual records, including all information contained on the applications of the current academic year's applicants and borrowers and all previous applicants and borrowers. This information should be provided in a format which makes it possible to distinguish among borrowers who are: (1) in repayment, (2) in deferred status, (3) in school, and (4) in default. It should also permit analysis of each of these groups by segment and individual institution as well as by individual lender.

Information about individual lender's roles in the Guaranteed Student Loan Program is even more difficult to obtain than student information. The fluidity of the definition of "lender" -- whether loan originator or loan holder -- complicates the collection, reporting, and interpretation of such information. Nonetheless, it is essential to know (1) how the borrower and institutional profiles of individual lenders compare, (2) whether some lenders have different default rates than others, and (3) if those differences are a function of differences in borrower characteristics, institutions served, or lender practices. Some of this information is available on the records maintained by the Student Aid Commission but are not now currently accessible at reasonable cost. Therefore, the Postsecondary Education Commission proposes:

RECOMMENDATION 17: The Student Aid Commission should report annually loan portfolio information for individual lenders, including; (1) volume of loans originated by segment and school, (2) volume of loans currently held by segment and school, (3) default rate of originated loans by segment and school, and (4) default rates of currently held loans by segment and school.

CONCLUDING COMMENTS

In the previous 17 recommendations, the Commission has sought to respond to the Legislature's concern about seemingly high and uncontrolled defaults in the California Guaranteed Student Loan Program as well as to the equally serious, though less well publicized problem of students' increasing dependence on loans and their growing debt burdens in financing their education. Several observations about these recommendations are in order:

- First, many of them call for new or expanded activities on the part of the Student Aid Commission, educational institutions, and lenders. Most of these activities will require additional resources of time, effort, and money that are not currently committed to the Guaranteed Student Loan Program. While it is not unreasonable to expect educational institutions and lenders to provide resources to undertake their share of these reforms, it is unreasonable to expect them to do so if the State fails to allow commitment of resources to enable the Student Aid Commission to do its share.

  The Guaranteed Student Loan Program is a massive one -- involving $660 million in loans and a quarter of a million borrowers each year, and a current cumulative total of over $2.6 billion to be serviced, monitored, and accounted for. The choices facing the Legislature and the Governor regarding defaults under the program are what level of default rate is acceptable to them, and what level of resources are they willing to commit to achieve that rate? Currently, 90 percent of borrowers repay their loans. To increase this rate to 95 percent would require the commitment of substantial resources over the next several years for additional default prevention and recovery activities of the Student Aid Commission and other State agencies. Is that reduction worth it to the Governor and Legislature who must authorize the expenditure?

- Second, implementing the Commission's recommendations, as well as many of the activities planned or under consideration by the Student Aid Commission will help reduce defaults and prevent further problems of unmanageable debt. But even if sufficient resources are committed to these activities, they will be only as effective as the spirit in which institutions, lenders, and the Student Aid Commission undertake them. If they view required minimum thresholds of effort with respect to institutional administrative requirements, lender due diligence, loan servicing, and State-level sanctions as maximums needed to continue participation in the program, then little improvement is likely. However, if their commitment to improving the program's credibility is reflected in doing more than the minimum, these recommendations can have significant effect.

  One example of doing more than the minimum is the current effort by lenders to develop more explicit and stringent due diligence requirements for notifying borrowers regarding their repayment responsibilities. Two examples of where additional effort is urgently needed are: (1) the development of comprehensive effective counseling programs for student borrowers, and (2) the imposition of meaningful sanctions on institutions with high default rates.

- Third, in this report, the Commission has sought to emphasize the partnerships involved in the Guaranteed Student Loan Program. While many of its recommendations are directed to a single one of the partners -- the federal government, the Student Aid Commission, the educational institutions, or the lenders -- the Commission believes that these partners should jointly consider who can undertake the needed activities most efficiently, effectively, and economically and, where possible, develop cooperative procedures for carrying them out.

  In this connection, the role of student borrowers as full partners in the program must be recognized. Many of the recommendations in this report place students in a passive role -- "forced" to take out loans, be a recipient of counseling, and be a target of information and requests for information. Nonetheless, student borrowers are a key partner in the program and are responsible for (1) obtaining enough information to make informed decisions about whether or not to borrow, (2) finding out what rights and responsibilities accompany their loan, and (3) protecting those rights by fulfilling these responsibilities. Even though a Guaranteed Student Loan is often a student's first experience with obtaining credit, it cannot be treated lightly. The future credibility of the program and the continuation of the educational opportunities it assures depend as much on the nature of student participation as on that of any of the other partners.

APPENDIX A

Senate Resolution No. 34

Introduced by Senator Leroy Greene

Relative to student loans

WHEREAS, The cumulative student borrowing in California under the federally Guaranteed Student Loan Program has grown from zero to two billion three hundred thirty-one million dollars ($2,331,000,000) in less than five years, exclusive of other student loan programs; and

WHEREAS, The current rate of long-term indebtedness being incurred by students in California's postsecondary education institutions exceeds six hundred seventy-five million dollars ($675,000,000) per year; and

WHEREAS, The default rate on California guaranteed student loans is now 12 percent and is approaching one hundred million dollars ($100,000,000); and

WHEREAS, During the last five years, there has occurred a major shift from grant programs, which have declined from 69.4 percent to 40.5 percent of the total financial aid package, to loan programs, which have increased from 19.1 percent to 32.4 percent of the total financial aid package; and

WHEREAS, A disproportionate share of student loans in the federally Guaranteed Student Loan Program, California loans to assist students, and National Direct Student Loan programs are being incurred by minorities (39.3%), women (57.7%), and low-income students (39.7%); and

WHEREAS, The United States Department of Education, the State Office of Private Postsecondary Education, and the California Student Aid Commission all share statutory responsibility for the determination, review, and monitoring of institutions eligible for participation in the federally Guaranteed Student Loan Program; and

WHEREAS, There has been no assessment made of the effect that the increasing reliance on student loans will have upon the educational objectives of minority and low-income students, students' career choices, students' choices of postsecondary institutions, students' abilities to pursue and successfully complete their educational and degree objectives, and students' abilities to pursue graduate education; and

WHEREAS, There has been no assessment of the long-term impact that reliance on student loans will have upon the financial stability of postsecondary education institutions; and

WHEREAS, There is currently no comprehensive state policy on student loans; now, therefore, be it

Resolved by the Senate of the State of California, That the California Postsecondary Education Commission conduct a study of the long-term impact of student loans upon the individual student and his or her family, upon access to a postsecondary education for minority, women, and low- and middle-income students, upon a student's career and education choices, and upon a student's ability to successfully pursue a postsecondary education; and be it further

Resolved, That the study shall include, but not be limited to, a review of each of the following:

(a) The characteristics of (1) those California students and institutions served by the federally Guaranteed Student Loan Program, by California loans to assist students, and by the National Direct Student Loan program, (2) those who default on these loans, and (3) the institutions with high default rates.

(b) The level and apparent causes of defaults in the National Direct Student Loan program and the federally Guaranteed Student Loan Program.

(c) The responsibilities outlined in federal statutes for (1) determining and maintaining institutional eligibility for participation in the federal loan programs, (2) determining student eligibility for the federally Guaranteed Student Loan Program and the National Direct Student Loan program, and (3) determining ways to prevent and recover defaulted loans.

(d) The current and historic role of loans and other elements of student aid in financing undergraduate and graduate education in each segment of public, private, and independent institutions of postsecondary education in California.

(e) The elements of loan costs, including interest subsidies, special allowances, administrative cost allowances, processing, monitoring, and collection over the life of a student loan, and who pays them.

(f) Aggregate debt burdens for undergraduate and graduate students of various income levels in the different segments of postsecondary education and information on typical repayment provisions; and be it further

Resolved, That the study shall review the Student Aid Commission's procedures for issuing guaranteed student loans and ensuring their repayment; and be it further

Resolved, That the study include recommendations, as appropriate, regarding the recovery of loan balances which are determined to be in default; and be it further

Resolved, That the study include recommendations, as appropriate, for changes in state and federal policy and practice on these topics and others considered relevant to student financial aid, including, but not limited to, all of the following:

(a) The appropriate relationship between student loans and the self-help component of the financial aid package, and other types of public financial aid support for postsecondary education.

(b) The appropriate distribution of student loans among all

BEST COPY AVAILABLE

segments of California postsecondary education.

(c) The licensing and review procedures for schools which rely heavily on guaranteed student loans and which have high student loan default rates; and be it further

Resolved, That the California Postsecondary Education Commission conduct this study with the advice and participation of a student representative from each segment of postsecondary education, appointed by the appropriate student organization; a representative from the administration of each of the segments, appointed by the chief executive of each of the segments; a representative from each of the following: the Legislative Analyst, the California Student Aid Commission, and the Department of Finance; and a lender participating in the Guaranteed Student Loan Program, appointed by the Student Loan Study Council of the Student Aid Commission; and be it further

Resolved, That the study, along with appropriate recommendations, be transmitted to the Governor and the Legislature by March 15, 1985.

Senate Resolution No. 34 read and adopted by the Senate June 13, 1984.

Attest: _____
Secretary of the Senate

APPENDIX B

California Guaranteed Student Loan Program Application

CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM

BEST COPY AVAILABLE

APPLICATION

STUDENT AID COMMISSION
(GUARANTOR)
1410 Fifth Street
Sacramento, California 95814
916/323-0435

INFORMATION AND INSTRUCTIONS FOR CALIFORNIA GUARANTEED STUDENT LOAN APPLICANTS

INFORMATION

The California Guaranteed Student Loan Program (CGSLP), administered by The California Student Aid Commission, was established for the purpose of assisting undergraduate and graduate students enrolled in eligible educational institutions in financing their post-secondary education.

The California Student Aid Commission is not a lender and does not make loans to qualified borrowers. Rather, the Commission guarantees (insures) those loans made by eligible lending institutions such as banks, savings and loan associations and credit unions, etc. No collateral is required to qualify for a CGSL and without the guarantee many student borrowers would have difficulty borrowing funds for their post-secondary educational expenses. With the guarantee the lender is assured of full payment.

To protect its reserves and the availability of these loans for other qualified borrowers, the Commission will pursue all legal remedies to obtain full repayment of all defaulted loans.

ELIGIBILITY

A student may apply for a California Guaranteed Student Loan if they meet the following requirements:

- be a U.S. citizen or eligible non-citizen (see Item 6 on the application).
- be enrolled or accepted for enrollment on at least a half-time basis at a post-secondary educational institution approved by the U.S. Department of Education and the Commission which is located in the State of California, or if the student is a legal resident of the state of California an eligible educational institution outside of the State of California.
- be in good standing and making satisfactory academic progress if already enrolled.
- not be in default on a student loan or owe a refund on an educational grant.
- demonstrate financial "need" in order to qualify for Federal interest benefits (see "Interest Benefits" below) if the student's family adjusted gross income is greater than $30,000.

If you do not meet the first four requirements do not apply for a loan. Students with family adjusted gross income over $30,000 may be eligible for interest benefits and should consult with their educational institution to determine this eligibility.

Educational institutions approved for the CGSLP include most two and four-year universities, colleges, graduate and professional schools, and many vocational schools. A school's participation in CGSLP does not assure the quality of the education or the ability of a student to benefit from enrollment in the school. Care must be exercised by the student in selecting a school. Each school can advise prospective students of their programs of study and eligibility to participate in the CGSLP.

LOAN LIMITS

Under the CGSLP, the annual and aggregate loan amounts are:

Type of Student	Annual Loan Limit	Aggregate Loan Limit
Undergraduate	$2,500	$12,500
Graduate	$5,000	$25,000

Students are eligible to borrow up to the annual amounts indicated or the "COST LESS AID (NET)" Item 30 on the application, whichever is less, for each academic year.

A student may not exceed the GSL annual or aggregate maximums under any combination of guaranteed loans administered by the Federal government, a state guarantee agency or a private not-for-profit guarantee agency.

INTEREST RATE

The interest rate under the GSL program is 8 percent per annum on loans for students with no previous GSL or who have prior outstanding 8 percent GSLs. Students who, on the date the promissory note is signed, have outstanding GSL(s) at either 7% or 9% will continue borrowing at those interest rates. Interest charges run from the date the loan is advanced until repayment is completed. Borrowers may be eligible for interest benefits during specified periods of time. See interest benefits below.

For additional information regarding finance charges, consult with the participating lender.

FINANCE CHARGES

The finance charges consist of:

a. an origination fee of 5 percent of the loan amount, and
b. an insurance premium or guarantee fee, and
c. interest on the unpaid principal balance of the loan when due.

Origination Fee

Lenders are authorized to charge the student an origination fee of 5 percent of the principal amount of the loan. This fee is credited to the Federal Government to help reduce the government's cost of subsidizing these low-interest rates.

Insurance Premium

There is an insurance premium collected by the lender and forwarded to the Commission where the funds are placed into a reserve fund to help guarantee the CGSL. The insurance premium is calculated at one percent (1%) per annum for the period of time, that the borrower is expected to complete his/her educational program plus one year.

The lender usually deducts the origination fee and insurance premium from the CGSL check at time of disbursement. A Freshman borrowing $2,500, with a 4 year study program, will pay about $250 in finance charges. ($2,500 × 5% = $125 origination fee, plus $2,500 × (4 yrs. + 1yr.) × 1% = $125 insurance premium, for a total of $250). The student's loan check would be about $2,250.

HOW TO APPLY

Before you apply for a loan it is essential that you carefully consider its repayment requirements and that you have exhausted all possibilities for other kinds of financial assistance. You should have selected a school to attend and contacted the financial aid office for information and directions on submitting your CGSL application for processing. Copies of CGSL applications are available at schools and lending institutions.

- You complete ONLY PART A, the Student Section, of the Loan Application. Make sure all items in the Student Section are completed and accurate. All copies of the application are sent to the school's financial aid office. Retain Statement of Borrower's Rights & Responsibilities for your records.
- Part B, School Section, of the application is to be completed ONLY by the financial aid office at your school. After the school has completed Part B, your application may be forwarded to your lender or returned to you to send to the lender.
- Part C, Lender Section of the application is completed only by your lender. The lender will forward the original part of the application to the Commission for review and guarantee.
- The lender will have you sign a Promissory Note and Disclosure Statement after it receives the guarantee from the Commission. You must sign and return this document to your lender before a loan check can be issued.
- Loan checks are sent to the school's financial aid office for delivery to the student.

The above procedures must be followed each academic year for any subsequent loans.

Time required for processing applications varies but usually requires 8 to 12 weeks. To avoid unnecessary delays, the student should apply early and be sure that Part A of the application is complete in every detail before submitting the application to the educational institution.

INTEREST BENEFITS

If the student qualifies, the Federal government will pay to the lender the interest for the student while the student is in school, during the "grace" period afterwards (see "Repayment" below) and during authorized periods of deferment when repayment is not required. Thereafter, the student pays the interest on the unpaid principal balance.

In order to determine whether the student qualifies for Federal interest benefits, the school must obtain additional information from the student that will enable it to determine the student's family adjusted gross income (AGI) and, if the AGI is greater than $30,000, the expected family contribution (EFC). If the student has applied for a Pell Grant or other campus-based financial assistance the school will already have the necessary information. A *Guaranteed Student Loan Needs Test* form may be used by the school in order to collect the necessary information. This form is available at the school financial aid office.

- If the student's family AGI is $30,000 or less, the student qualifies for a loan with interest benefits for the amount in Item 30 (Item 28 less Item 29A) or the annual loan limit, whichever is less.
- If the student's family AGI is greater than $30,000, the school must also determine the student's EFC using a standard need analysis method. The school enters the EFC in Item 29B of the application. The student is eligible to receive a loan with interest benefits for the amount of remaining need indicated in Item 30 (Item 28 less Item 29A and Item 29B) or the annual loan limit, whichever is less.

For additional information regarding qualification for the Federal interest benefits, consult the school financial aid officer.

REPAYMENT TERMS

The repayment period of the loan begins after a six- (for 9% and 8% loans) or nine- (for 7% loans) month "grace" period following graduation or other termination of studies and failure to be attending on at least a half-time basis.

Arrangements for repayment, however, *must* be made four months prior to the end of the "grace" period. The student must contact the lender to arrange a repayment schedule and to obtain additional information concerning other repayment terms.

Although there are other options available, most students repay in monthly installments. The first monthly payment is generally due the seventh (for 9% and 8% loans) month or the tenth (for 7% loans) month after graduation or other termination of studies and failure to enroll on at least a half-time basis, and monthly payments are made thereafter until the loan is repaid. The repayment period may extend over as many as 10 years, but the minimum monthly payment is $50.00 ($30.00 for loans disbursed prior to October 1, 1981). The amount of the installment and the repayment schedule are determined by the student borrower and the lender.

For additional information regarding deferments and repayment schedules, consult the participating lender.

RIGHT TO FINANCIAL PRIVACY ACT NOTICE

Under the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401–3421), the California Student Aid Commission, Educational Loan Programs, and the U.S. Department of Education will have access to financial records in your student loan file maintained by the lender or subsequent holders in connection with the administration of the Guaranteed Student Loan Program.

Privacy Act And The California Information Practices Act

The Privacy Act of 1974 (5 U.S.C. 552a) and the California Information Practices Act of 1977, California Civil Code § 1728–1798.76, as amended, require that an agency provide the following notice to each individual whom it asks to supply information:

1. The authority for collecting the requested information in Sections 429(a)(1) and 428(a) of the Higher Education Act of 1965, as amended (20 U.S.C. 1079(a)(1) and 1078(a)). Applicants are advised that participation in the California Guaranteed Student Loan Program (CGSLP) is voluntary, but the requested information is necessary for participation in the CGSLP.
2. The principal purposes of this information are as follows: to verify the identity of the applicant; to determine program eligibility and benefits; to permit servicing of the loan; and, in the event that it is necessary, to locate missing borrowers and collect on delinquent or defaulted loans.
3. The routine used include the following: the information may be furnished during the life of the loan to holders of this and other loans made to the borrower under the CGSLP; to educational institutions in which the borrower is enrolled or is accepted for enrollment; to guarantee agencies; to contractors which assist the Student Aid Commission and the U.S. Department of Education in the administration of the CGSLP; to Federal or State agencies or private parties who may be able to provide information necessary for the collection of the loan or to assist in the servicing or collection of the loan.
4. Form CGSLP 110: Applicants must provide all of the information requested in order to have their applications processed.
5. Applicants are also advised that they have access to their files and the information therein according to procedures established by the California Student Aid Commission. See next section for access to your file.

Section 7(b) of the Privacy Act of 1974 (5 U.S.C. 552a note) requires that when any Federal, State, or local government agency requests an individual to disclose his social security account number (SSN), that the individual must also be advised whether that disclosure is mandatory or voluntary, by what statutory or other authority the SSN is solicited, and what uses will be made of it.
Section 7(a)(2) of the Privacy Act provides that an agency may continue to require disclosure of an individual's SSN as a condition for the granting of a right, benefit, or privilege provided by law where the agency required this disclosure under statute or regulation prior to January 1, 1975 in order to verify the identity of an individual.
Disclosure of the applicant's SSN is required as a condition for participation in the CGSLP, as the U.S. Department of Education has, for several years, consistently required the disclosure of the SSN on application forms and other necessary CGSLP documents adopted pursuant to published regulations (34 CFR 682, particularly 34 CFR 682.300(b) and 34 CFR 682.514(b)).
The SSN will be used to verify the identity of the applicant, and as an account number (identifier) throughout the life of the loan in order to record necessary data accurately. As an identifier, the SSN is used in such program activities as: determining program eligibility; certifying school attendance and student status; determining eligibility for deferment of repayment; determining eligibility for disability or death claims; and for tracing and collecting in cases of delinquent or defaulted loans.

INDIVIDUAL'S RIGHT OF ACCESS TO PERSONAL RECORDS

An individual borrower has a right of access to records containing his or her personal information that are maintained by educational institutions, lending institutions, subsequent holders of the individual's promissory note(s) or their servicing agency, and the California Student Aid Commission. The official responsible for maintaining the information at the Commission is: Associate Director, CSAC-CELP, 1410 Fifth Street, Sacramento, CA 95814; telephone (916) 323-0435.

INSTRUCTIONS AND INFORMATION FOR COMPLETING PART A (CLEARLY PRINT OR TYPE INFORMATION)

ITEM 1: Social Security Number. Read the Privacy Act Notice before completing this item.

ITEM 2: Applicant's Name. Give complete last and first names and any middle initial(s).

ITEM 3: Birth Date. Using numbers, enter the date of your birth (state as six digit number in order of month, day and year (e.g., 01/10/62 for January 10, 1962).

ITEM 4: Permanent Home Address. Enter that permanent address at which you can always be contacted. Do not enter post office box number; give street name, house or apartment unit and number. Rural route with box number and those few communities that only have post office delivery, a P.O. Box is acceptable; indicate by entering "Rural Route" or "Post Office Delivery Only" in the space.

ITEM 5: Telephone. List complete telephone number, at residence in Item 4, or a number at which you normally can be contacted.

ITEM 6: U.S. Citizenship. Check (a) if you are a citizen, national, citizen of northern Mariana Islands, or a permanent resident of the Trust Territory of the Pacific Islands, Puerto Rico and the Virgin Islands. Check (b) if you are in the U.S. for other than a temporary purpose. You meet this requirement if you have an I-151 or I-551 Alien Registration Card, an I-94 Arrival-Departure Report Card stamped "refugee" or "applicant for adjustment," or have been granted asylum in the U.S. if you are on an F1, F2, J1 or J2 visa, you must check (c) and are therefore not eligible for a loan.

ITEM 7: Dependents. If you are a dependent student, enter "0". If you are an independent student, enter the total of "one" for yourself and "one" for each person that is dependent upon you for at least one-half or more of their support. An independent student with one dependent would enter "2" or, if no dependents enter "1".

ITEM 8: State of Permanent or Legal Residence. Give month and year as four digit number that you established this residence. For purposes of participating in the California Guaranteed Student Loan Program:

- You must be a resident of California if you are attending or plan to attend an eligible educational institution outside of California.
- You do not have to be a resident of California if you are attending or plan to attend an eligible educational institution in California.
- If your California residency has been temporarily interrupted because of school attendance, military service, or other similar reasons, you must have the intent to return to California following such activity and demonstrate such intent if requested.

ITEM 9: Intended Enrollment Status. Check appropriate block that best indicates your intended or current enrollment status.

ITEM 10: Major Course of Study. Using the number codes below, enter that number which corresponds to your major course of study at this time. If undecided enter "8" in this block.

0. Correspondence	3. Engineering	6. Science
1. Liberal Arts	4. Education	7. Vocational
2. Graduate or Professional	5. Business	8. Other

ITEM 11: Residence During Loan Period. Check appropriate block which best describes your residence during the loan period.

ITEM 12: Previous Enrollment. You must answer yes if, at any time prior to the academic year for which this loan is sought, you previously attended any postsecondary school (beyond high school level). If the answer is no to this question, the amount you can borrow and the manner in which funds can be disbursed will be limited IF the lender making the loan is a state agency, a private nonprofit agency, a school, or a commercial lender that has a special relationship with a school.

ITEM 13: Requested Loan Amount. Enter the minimum amount necessary to meet your educational expenses. This amount may NOT exceed the Estimated Cost of Education minus (Financial Assistance and Estimated Family Contribution) listed in Item 30. Note: Lenders may have loan maximums that are less than Program limits.

ITEM 14: Period of Loan. Indicate the month and the year of the starting and ending dates of the academic period for which this loan is to be used.

ITEM 15: Guaranteed Student Loan, Parent Loan or Auxiliary Loan to Assist Students Default. Enter check mark in "YES" block if you have defaulted on a prior Guaranteed Student Loan, a Federal Insured Student Loan, a Parent Loan, an Auxiliary Loan to Assist Students, National Direct/Defense Student Loan or other educational loans. A default exists when installment payments have not been paid when due and under circumstances where the guarantor concludes that the borrower no longer intends to honor the obligation to repay. You may still be eligible for a Guaranteed Student Loan if the Student Aid Commission determines that you have made satisfactory arrangements, with the agency holding your note, for repayment of the outstanding obligation and can show a satisfactory repayment record. Submit statement on conditions leading to default, arrangements for repayment and supporting documentation that provides current information on status of the defaulted loan. Attach these materials to the application.

Other educational loans, i.e., National Direct/Defense Student loan (NDSL), Health Education Assistant Loan (HEAL), Parent Loan (PL) California Loans to Assist Students (CLAS).

ITEM 16: Student Loan Debts. List all Guaranteed Student Loans you have. Using the key below, check either "A", "B" or "C" in the "Type of Loan" column. In the "Unpaid Balance" column, indicate the unpaid balance on the loan. In the "Interest Rate" column, indicate the interest rate at which you borrowed. If additional space is needed, continue on a separate sheet and attach to the application.

A = Federal Insured Student Loan (FISL), i.e., all loans guaranteed by the Federal Government.

B = Other Guaranteed Student loans (GSL), i.e., all loans guaranteed by a state guarantee agency or a private not-for-profit guarantee agency other than the Federal Government.

C = Other educational loans, i.e., National Direct/Defense Student loan (NDSL), Health Education Assistance Loan (HEAL), Parent Loan (PL), Auxiliary Loan to Assist Student (ALAS).

ITEM 17: Reference. Enter all information requested for the three references in Item 17; DO NOT LEAVE ANY SPACE BLANK. Record references with different addresses. Complete sections A, B and C as follows: One parent, guardian or both parents at same address use A. Parents at different addresses use A and B. Complete C and B and A as necessary with adult relative or friend. Person named as reference should know your whereabouts at all times. Leave no sections blank.

ITEM 18: (A) Driver's License. Enter the number appearing on your driver's license and state that issued license. If you do not possess a driver's license but have an identification card issued by a state agency, enter this information noting "ID" and name of agency.

(B) Temporary Address. Enter your school address if different from your permanent home address.

ITEM 19: Signature of Applicant. Before signing the application, carefully read the "Borrower Certification" which appears on the reverse side of the application.

NOTE: ANY CHANGES MADE ON PART A, STUDENT PART, OF THIS APPLICATION MUST BE MADE BY THE STUDENT AND INITIALLED BY THE STUDENT.
NOTE: WHEN THE APPLICATION IS APPROVED BY THE CALIFORNIA STUDENT AID COMMISSION, THE LENDER, PRIOR TO DISBURSEMENT OF FUNDS, WILL REQUIRE THE BORROWER TO SIGN THE PROMISSORY NOTE.

BEST COPY AVAILABLE

PREPARE 4 COPIES
WHITE—SAC
YELLOW—LENDER
GREEN—SCHOOL
BLUE—STUDENT

Application For

CALIFORNIA GUARANTEED STUDENT LOAN
STUDENT AID COMMISSION
EDUCATIONAL LOAN PROGRAMS
SACRAMENTO, CALIFORNIA

FOR LENDER USE – LOAN IDENTIFICATION

Warning: The assistance applied for herein is provided in part by the United States. Any person who knowingly makes a false statement or misrepresentation on this form shall be subject to prosecution under provisions of the U.S. CRIMINAL CODE.

—TYPE OR PRINT ALL ENTRIES—STUDENT COMPLETE PART 'A' ONLY—

PART A STUDENT

1. SOCIAL SECURITY NO.	2. APPLICANT'S LAST NAME	FIRST NAME	M.I.	3. BIRTH DATE mo/day/yr
				/ /

4. PERMANENT HOME ADDRESS	CITY	STATE	ZIP CODE	5. (AC) TELEPHONE
				( )

6. U.S. CITIZENSHIP	7. TOTAL NUMBER OF BORROWER'S DEPENDENTS _____	8. PERMANENT/LEGAL RESIDENCE
(A) U.S. CITIZEN, NATIONAL OR RELATED STATUS ☐	LIST AGES _____	STATE _____
(B) PERMANENT RESIDENT OR ELIGIBLE ALIEN ☐		SINCE mo/yr ____/____
(C) NEITHER (A) NOR (B) ☐		

9. I INTEND TO ENROLL	10. MAJOR COURSE OF STUDY CODE	11. WHILE IN SCHOOL BORROWER INTENDS TO LIVE
AS A FULL-TIME STUDENT ☐	USE THE CODE NUMBER LISTED IN THE INSTRUCTIONS ☐	(CHECK ONE) WITH PARENTS ☐
AS AT LEAST A HALF-TIME STUDENT ☐		ON CAMPUS ☐
		OFF CAMPUS ☐

12. HAVE YOU EVER BEEN ENROLLED IN ANY SCHOOL BEYOND THE HIGH SCHOOL LEVEL PRIOR TO THE ACADEMIC YEAR FOR WHICH THIS LOAN IS REQUESTED? YES ☐ NO ☐	13. LOAN AMOUNT REQUESTED $ _____	14. PERIOD OF LOAN FROM mo/yr ____/____ TO mo/yr ____/____

15. HAVE YOU EVER DEFAULTED ON A GUARANTEED STUDENT LOAN, A PARENT LOAN OR AN AUXILIARY LOAN TO ASSIST STUDENTS? IF YES, LIST ALL DETAILS, INCLUDING REPAYMENT ARRANGEMENTS ON A SEPARATE SHEET. YES ☐ NO ☐

16. DO YOU HAVE ANY OUTSTANDING STUDENT LOAN DEBTS? YES ☐ NO ☐ IF YES, LIST BELOW (USE SEPARATE SHEET IF NECESSARY)

LENDER/CREDITOR NAME	ADDRESS	CITY	STATE	TYPE OF LOAN SEE INSTRUCTIONS	SCHOOL PERIOD BEGINNING	SCHOOL PERIOD ENDING	UNPAID BALANCE	INTEREST RATE
				A B C				
				A B C				
				A B C				
				A B C				

17. REFERENCES Check ☒ Black Applicable	A. ☐ PARENT ☐ GUARDIAN ☐ OTHER ADULT RELATIVE ☐ FRIEND	B. ☐ OTHER PARENT if their address is different than that in part A. ☐ OTHER ADULT RELATIVE ☐ FRIEND	C. ☐ OTHER ADULT RELATIVE ☐ FRIEND
NAME			
HOME ADDRESS			
CITY/STATE/ZIP			
PHONE	(AC)	(AC)	(AC)

18. DRIVER'S LICENSE NO./STATE	TEMPORARY ADDRESS	CITY	STATE	ZIP CODE
(A)	(B)			

19. MY SIGNATURE ON THIS APPLICATION CERTIFIES THAT I HAVE READ AND AGREED TO THE CONDITIONS AND AUTHORIZATIONS GIVEN IN THE "STUDENT CERTIFICATION" PRINTED ON THE REVERSE OF THIS APPLICATION.	SIGNATURE OF BORROWER	DATE SIGNED

SCHOOL USE ONLY — **SEE SCHOOL INSTRUCTIONS FOR PART B ON REVERSE SIDE** — **SCHOOL USE ONLY**

PART B SCHOOL

20. NAME OF EDUCATIONAL INSTITUTION			22. LOAN PERIOD mo/day/yr FROM ____/____/____ TO mo/day/yr ____/____/____
21. ADDRESS	CITY	STATE ZIP CODE	23. GRADE LEVEL CODE NUMBER

24. ANTICIPATED COMPLETION DATE mo/yr ____/____	25. SCHOOL CODE	26. (AC) TELEPHONE	27. (A) DEPENDENCY STATUS (CHECK ONE) ☐ DEPENDENT ☐ INDEPENDENT	27. (B) FAMILY ADJUSTED GROSS INCOME $ _____
28. ESTIMATED COST OF EDUCATION FOR LOAN PERIOD $ _____	29. (A) FINANCIAL AID FOR LOAN PERIOD $ _____		29. (B) EXPECTED FAMILY CONTRIBUTION $ _____	30. COST LESS AID (NET) ITEM 28 minus Items (29(A) +29(B)) $ _____

32. MY SIGNATURE BELOW CERTIFIES THAT I HAVE READ AND AGREED TO THE CONDITIONS GIVEN IN THE "EDUCATIONAL INSTITUTION CERTIFICATION" PRINTED ON THE REVERSE OF THIS APPLICATION

SIGNATURE OF AUTHORIZED SCHOOL OFFICIAL	PRINT NAME AND TITLE	DATE SIGNED

PART C LENDER

33. NAME OF LENDING INSTITUTION	35. (AC) TELEPHONE	37. ANTICIPATED DISBURSEMENT DATE(S)	38. LOAN AMOUNT	39. (A) MATURITY DATE MO ____ YR ____
34. ADDRESS	36. LENDER CODE	(1) MO____YR____	$	(B) RATE ____%
CITY STATE ZIP CODE		(2) MO____YR____	$	
		(3) MO____YR____	$	(C) TOTAL FEE $ _____
		TOTAL	$	

40. SIGNATURE OF LENDING OFFICER	PRINT NAME AND TITLE	DATE SIGNED

87417-876 8-83 8000M BEXT ⓒ D OBP

SECTION I — BORROWER CERTIFICATION

I declare under penalty of perjury under the laws of the United States of America that the following is true and correct. I, the borrower, certify that the information contained in Part A on the reverse side of this application is true, complete, and correct to the best of my knowledge and belief and is made in good faith. If I am due a refund from the certifying educational institution I authorize that institution the right to pay directly to the lender any refund or portion of refund, not to exceed the amount of this loan, that may be due to me. I further authorize any party to this loan (any educational institution, lender, subsequent holders, guarantee agency, U.S. Department of Education or their agents) to release to each other any requested information pertinent to this loan (e.g., employment, enrollment status, current address, and status of the loan account). I certify that the proceeds of any loan made as a result of this application will be used for educational purposes for the academic period covered by this application at the educational institution certifying this application in Part B. I understand that I must repay all funds that I receive plus any interest that may accrue for which I am responsible. I further understand that I must immediately repay any funds which cannot reasonably be attributed to meeting my educational expenses related to attendance at the certifying educational institution for the loan period stated in Part B. of this application. I certify that the total amount of loans received under the Guaranteed Student Loan Program, Title IV, Part B. (P.L. 89-329), as amended, will not exceed the allowable maximums. I further certify that I do not now owe a refund on a Basic Educational Opportunity (Pell) Grant, California Student Aid Commission's grant programs and am not now in default on a National Direct (Defense) Student Loan or a Guaranteed Student Loan. I authorize the lending institution named on this application in Part C. to issue a check covering the proceeds on my loan, in full or part, made payable to me, or at the lender's option, jointly payable to me and the educational institution certifying this application in Part B. and sent to the educational institution. I authorize the lending institution to perform a credit examination on me if required by that lender in due course of originating my loan. I have read and understood the "Statement of Rights and Responsibilities" supplied with this application.

SECTION II — EDUCATIONAL INSTITUTION CERTIFICATION

I hereby certify that the student borrower is accepted for enrollment, or is enrolled, in good standing as at least a half-time student and is making satisfactory progress in a study program determined to be eligible for the Guaranteed Student Loan Program. I further certify that, based upon records available at this institution, this student is neither in default nor owes a refund with respect to previous Federal Financial Assistance for attendance at this institution, and that the information provided in Part B is true, complete, and correct to the best of my knowledge and belief.

INSTRUCTIONS FOR COMPLETING PART B

ITEM 22: Loan Period. Use actual dates of student's attendance at THIS institution. These dates should coincide with the academic period(s). If Item 14 dates do not match exactly with an academic period do not change them in Item 14 but enter correct dates in Item 22.

ITEM 23: Grade Level Code. Use the appropriate grade level code number below:

0:	Correspondence/other	Graduate or Professional	
1:	1st year (Freshman)	6:	First year
2:	2nd year (Sophomore)	7:	Second year
3:	3rd year (Junior)	8:	Third year
4:	4th year (Senior)	9:	Beyond third year
5:	5th year (Undergraduate)		

Vocational/proprietary schools used V-1 or V-2 as appropriate

ITEM 24: ANTICIPATED COMPLETION DATE. Enter the date month and year that the student borrower will complete the program of study in which he/she currently is enrolled at this educational institution. This will occur when the borrower ceases to be enrolled half-time or greater, such as awaiting a graduation date in the future. Date of graduation may not always be the same as completion date.

ITEM 25: School Code. Enter the six digit number assigned to the educational institution by the Department of Education.

ITEM 27: (A): Student Dependency. Indicate the student's status using the definitions of "dependent" and "independent" students that appear on the Pell (BASIC) Grant Program regulations.

(B): Family Adjusted Gross Income. Enter adjusted gross income taken from the reported income, of GSL Needs Test. Use student's income only for independent students and combined total of family and student's income for dependent students.

ITEM 28: Estimated Cost of Education for Loan Period. The 1% insurance premium (1% for each year of expected academic program plus 1%) and 5% origination fee may be included as part of cost of education.

ITEM 29: (A): Financial Aid for Loan Period. Indicate the estimated amount of assistance for the loan period that the school is aware the student has been or will be awarded. Do not include the loan amount for which the student is applying on this application, but do include any loan(s) under the Parent Loans and Auxiliary Loans to Assist Students programs. Also include Veterans and Social Security benefits.

(B): Expected Family Contribution. Enter the figure resulting from a GSL needs analysis for dependent students whose combined annual family and student income is greater than $30,000.00, or independent students whose adjusted gross income is greater than $30,000.00. For applicants who as a result of GSL needs analysis has a zero or less expected family contribution, enter "$0.00". For dependent applicants whose combined family and student adjusted gross income is $30,000.00 or below and independent students whose adjusted gross income is $30,000.00 or below, enter "$0.00".

ITEM 30: Cost Less Aid (Net). Subtract Items 29(A) (Financial Aid For Loan Period), and 29(B) (Expected Family Contribution) from Item 28 (Estimated Cost of Education For Loan Period), and enter amount in this space.

INSTRUCTIONS FOR COMPLETING PART C

ITEM 36: Lender Code. Enter the six digit lender vendor number assigned to your institution by the U.S. Department of Education.

ITEM 37: Anticipated Disbursement Date(s). Enter the month(s) and year(s) in which you plan to disburse this loan., If only one disbursement is planned use first line only; leave (2) and (3) blank. If you plan multiple disbursements enter each date that you plan a disbursement.

ITEM 38: Loan Amount. Enter the amount of loan principal planned for each disbursement listed in Item 37. on same line.

ITEM 39. (A) Maturity Date. Use of this item is optional.*

ITEM 39. (B) Interest Rate.
7% if borrower has any outstanding GSL or FISL at 7%,
9% if borrower has any outstanding GSL or FISL at 9%,
8% if borrower has any outstanding GSL or FISL at 8%,
or this is the first GSL the borrower will have.

ITEM 39. (C) Total Fees. Use of this block is optional.*

*You may wish to complete these items if you are preparing your own promissory notes in order that the CELP Processing Center may verify your calculations.

LENDER: Retain the YELLOW copy of this application for your files. Forward WHITE copy to the following address for processing:

CSAC-CELP Processing Center
8801 Folsom Blvd., Suite 110
Sacramento, CA 95826

CGSLP 110 (Rev. 2/84)

102

CALIFORNIA STUDENT AID COMMISSION
EDUCATIONAL LOAN PROGRAMS

STATEMENT OF STUDENT BORROWER'S RIGHTS AND RESPONSIBILITIES

BORROWER'S RIGHTS

1. The lender must provide me a copy of the completed Promissory Note no later than the time the loan is disbursed. The lender must return the original Promissory Note to me when I have paid the loan in full.

2. My yearly and cumulative maximum loan amounts are:

Category of Borrower	Annual Loan Limit	Aggregate Loan Limit
Undergraduate	$2,500	$12,500
Graduate or Professional	$5,000	$25,000

3. I will qualify for Federal interest benefits if my family's (including my income) adjusted gross income is $30,000 or less. If my family's adjusted gross income is greater than $30,000 I may qualify for Federal interest benefits if the results of a needs analysis performed by my educational institution show that I have a need for a loan. In either case the amount of the loan may not exceed the cost of education less other estimated student financial assistance, including social security and veteran's benefits and any applicable estimated family contribution.

4. I will qualify for a subsequent loan if I am making satisfactory progress toward completion of my academic program as defined by the educational institution.

5. I am not permitted to provide security for this loan. The lender may require a co-signer to sign the Promissory Note.

6. Each loan check must either be payable to me or, with my written authorization, to me and the educational institution. By signing the California Guaranteed Student Loan application, I am authorizing the lender in writing to disburse the loan check payable to me and the educational institution at the lender's option. (See student's certification on the reverse side of the loan application) If I am attending a foreign school, the lender may mail the loan check to the school on my behalf. Any check made on my loan will require my endorsement.

7. If I have an outstanding guaranteed student loan bearing an interest rate of 7 percent or less on the date I sign the Promissory Note for this loan or any subsequent loan, this loan will also be at the 7 percent rate. On any loan where the applicable interest rate is 7 percent or less, I am also entitled to a 9 month grace period before the repayment period begins. The length of the "grace period" is shown on the Promissory Note under heading TERMS OF REPAYMENT. If I am a first time borrower or have an outstanding loan with an applicable interest rate of 8 percent, the interest rate on this loan will be 8 percent. If I have an outstanding loan with an applicable interest rate of 9 percent, the interest rate on this loan will also be 9 percent. In all cases, the interest rate on subsequent loans is the same as the rate on prior loans. The grace period on all loans with an applicable interest rate of 9 or 8 percent will be 6 months. The grace period always begins on the day following the date I cease attending an educational institution participating in the Guaranteed Student Loan Program on at least a half-time basis.

8. The lender is to provide me with a Repayment Schedule before repayment period begins (see Borrower's Responsibilities # 6). The provisions of the Repayment Schedule must conform to the Terms of Repayment in the Promissory Note.

9. I will fully repay this loan within 15 years of the date of the Promissory Note, over a repayment that lasts at least five years but no more than ten years. However, the following exceptions to these rules apply.

A. If, during the grace period, I request a repayment period less than 5 years, the lender must grant that shorter period. In that event and at my option, I may later choose to have the repayment period extended to at least 5 years.

Student Borrower's Rights (Continued)

B. The lender may require a repayment period shorter than 5 years if this is necessary to ensure that during each year of the repayment period I or, if both my spouse and I have Guaranteed Student Loans or PLUS loans outstanding, we pay toward principal and interest at lecst $600 or the unpaid balance, whichever is less, of the total amount owing to all holders of my our Guaranteed Student Loans and PLUS loans.

C. Any period described under DEFERMENT in the Promissory Note will not be included in determining either the 15 year period or the 5 to 10 year period mentioned above.

10. I have a right to prepay the whole loan or any portion of the loan at any time without penalty.

11. If I meet certain requirements, I have the right to defer payments on the loan as set forth under DEFERMENT in the Promissory Note. Also, I have a right to a 6 months post-deferment grace period after each authorized deferment if my loan was disbursed prior to October 1, 1981. Otherwise I am not entitled to a post-deferment grace period.

12. My loan obligation will be cancelled if I become permanently disabled or if I die. THE GUARANTEED STUDENT LOAN PROGRAM DOES NOT HAVE FEDERAL GOVERNMENT PROVISIONS WHICH ENABLE THIS LOAN TO BE CANCELLED OR FORGIVEN IN WHOLE OR PART FOR TEACHING. Information on any State of California program may be obtained from the California Student Aid Commission, Educational Loan Programs Office, 1410 Fifth Street, Sacramento, CA 95814.

13. The Federal Government normally will pay the interest that accrues on the loan both before the repayment period, during any authorized deferment period, and if I am eligible, during the post-deferment grace period. In that event, the lender may not collect this interest from me.

14. If I am willing, but financially unable to make payments under my repayment schedule, I may request, in writing, the lender to allow any of the following:

A. A short period during which I make no principal payments. I will, however, be responsible for the interest payments during this period, the manner of payment of which will be determined by the lender;

B. To extend the time for making payments; or

C. The making of smaller payments than were scheduled originally.

However, the lender is not required to approve my request.

15. If the lender sells the loan or otherwise transfers the right to receive payment, I must be sent a clear notification which spells out my obligations to the party to which my loan was sold.

16. I understand that loan consolidation or refinancing options may be available for GSLP and other educational loan programs. For further information contact the California Student Aid Commission, Educational Loan Programs Office, 1410 Fifth Street, Sacramento, CA 95814.

I further understand that under certain circumstances, military personnel may have their loans repaid by the Secretary of Defense, in accordance with Section 902 of the Department of Defense Authorization Act, 1981 (P.L. 96-342, 10 U.S.C. 2141, note). Questions concerning the program should be addressed to: Commander Military Personnel Center, DAPC-PLP, Alexandria, Virginia 22332.

Student Borrower's Rights (Continued)

17. Default occurs when I fail to make an installment payment when due, or to meet other terms of the Promissory Note under circumstances where the California Student Aid Commission finds it reasonable to conclude that I no longer intend to honor the obligation to repay, provided that my failure persists for:

A. 120 days if I repay in monthly installments, or

B. 180 days if I repay in installments due less frequently than monthly.

If I default, my lender will ask the California Student Aid Commission to purchase my loan, at which time I will owe the entire balance of the loan to the Commission directly. My lender, or the Commission may report failure to pay my loan to a credit bureau, which may injure my credit rating. Upon request, the lender must describe any arrangements it has made with credit bureau organizations concerning student loans. If I am able, but unwilling to repay my loan(s), either the lender or the Commission may institute legal action to force me to repay my loan(s). The Commission may transfer information to the State of California Franchise Tax Board, The Attorney General's Office, State Personnel Board, Department of Motor Vehicles, and the U.S. Department of Education and the U.S. Internal Revenue Services.

18. The lender must keep on file a copy of the Federal Law and regulations that govern the Guaranteed Student Loan Program. I have a right to examine these materials as I wish.

19. I should investigate the availability of other forms of financial aid with the educational institution's financial aid administrator. It may be to my benefit to determine my eligibility for grant, work-study and other sources of assistance before applying for a student loan. I understand that receipt of a Guaranteed Student Loan may eliminate or reduce any awards that I may be eligible to receive from other programs.

BORROWER'S RESPONSIBILITIES

1. I understand that I must use care in choosing an educational institution. Each institution must provide a prospective student with information about that institution and its program. I will consider this information carefully before deciding to attend a specific institution. I understand that neither the lender, the California Student Aid Commission nor the United States Government vouches for the quality of a school or its programs.

2. I understand that the California Student Aid Commission may charge me for a guarantee fee (insurance premium) and that I will not be entitled to any refund of this amount unless the loan is paid in full within 60 days of its disbursement date. If the lender disburses the loan in multiple installments, I will pay this guarantee fee for each disbursement as scheduled by the lender. The guarantee fee may be deducted from the proceeds of my loan.

3. I understand that an Origination Fee of 5 percent of the loan amount (amount requested) will be deducted from the loan proceeds and will be retained by the lender. The lender will use this fee to offset the interest benefits and special allowance paid to it by the Federal Government.

Student Borrower's Responsibilities (Continued)

I further understand that I will not be entitled to a refund on any portion of the origination fee if I have negotiated (cashed) the lender's loan proceeds check and subsequently make payment(s) on the loan in full or part, although I may be due a refund of the guarantee fee. (See Borrower's Responsibilities # 2.)

4. I understand that I must make satisfactory progress toward completion of my program of study to qualify for a subsequent loan. The educational institution I am attending specifies the conditions of satisfactory progress.

5. I understand that the proceeds of my loan may be used only for educational purposes at the educational institution certifying my loan application and that I may be prosecuted under the provisions of the United States Criminal Code if I use these funds for any other purpose.

6. I must contact my lender within 10 days to make repayment arrangements after ceasing to be enrolled at an eligible educational institution on at least a half-time basis. If this is a 9 or 8 percent loan these arrangements must be made within 60 days of the loss of eligibility or within 150 days if this is a 7 percent loan.

7. If I re-enter an eligible educational institution on a FULL-TIME BASIS and my repayment period has begun, I will pay the interest accruing on the Note during periods of time granted for the purpose of aligning maturity dates of this and other notes.

8. I must repay the loan in accordance with the Repayment Schedule that the lender will furnish me.

9. I must notify the lender within 10 days, in writing, if any of the following events occur before the loan is repaid:

A. My failure to enroll in school for the period for which the loan was intended.

B. My attendance in school is on LESS THAN A HALF-TIME BASIS.

C. My withdrawal from school.

D. My transfer from one eligible school to another eligible school.

E. My completion of studies at school or graduation from school.

F. A change in my name (e.g., maiden to married name).

G. A change in address, either permanent or mailing addresses.

10. If I qualify for a deferment of repayment, I must provide the lender with written evidence of my eligibility, and notify the lender as soon as the conditions for which deferment was granted no longer exists. I further understand that I must provide documentation annually to support my continued deferment status, unless I have an unemployment deferment, in which case I must provide documentation at least once every six months to support my deferment status. (Borrower should consult and use CELP form 150, Request For Deferment of Repayment or approved lender's form to initiate eligible deferment)

11. I understand that if I am a correspondence student, this loan is covered by Federal regulations setting forth separate rules about what the loan proceeds may be used for and when my repayment period begins.

12. I understand that I will be required to furnish information of my exemption or compliance with the registration requirements of the Military Selective Service Act (Public Law 97-252) to obtain this loan. I further understand that if I am subject to the provisions for registration under this act I will be required to provide proof of my compliance therewith.

13. I understand that in the event that bankruptcy proceedings are commenced by or against me, I must notify the California Student Aid Commission of such occurence in writing within 20 days of the filing of a petition.

RETAIN THIS COPY OF YOUR RIGHTS AND RESPONSIBILITIES STATEMENT UNDER THE CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM AND FILE IT WITH YOUR PROMISSORY NOTE(S).

APPENDIX C

The California Student Expenses and Resource Survey (SEARS)

The following discussion of the SEARS survey was excerpted from pp. 5-10 of the Commission Staff report, Meeting the Cost of Attending College: (Commission Report 84-15, May 1984).

SEARS QUESTIONNAIRE DESIGN AND ADMINISTRATION

The early SEARS questionnaires were designed by the Student Aid Commission and segmental representatives with the aid of a consultant from the College Scholarship Service, a subsidiary of the Educational Testing Service and the College Board. The 1982-83 questionnaire was updated and modified from past surveys by the Student Aid Commission staff in cooperation with the Student Aid Commission's research advisory committee, which included one representative from the Community College Chancellor's Office, one from the Community Colleges, one from a campus, and one from the systemwide offices of each of the University of California and the California State University, as well as representatives from independent colleges and universities, private proprietary schools, and the Postsecondary Education Commission. The questionnaire was then pilot tested at three institutions, discussed with student respondents, and modified to make the meaning of several questions clearer and promote unambiguous responses to them. Each of the segments had the option of adding up to three questions to the survey form for its own students. The University added one about financial aid applications of its students, while the Community Colleges added three.

The Student Aid Commission then sent the questionnaires to 40 member institutions of the Association of Independent California Colleges and Universities (AICCU) and the systemwide offices of the three public segments for distribution to campus coordinators at the institutions where a 5 percent random sample of students was surveyed by mail.

The participating institutions included all nine campuses of the University of California, 15 of the 19 State University campuses, and 23 of the State's 106 Community Colleges. The 23 Community Colleges were one of four such groups used by the Chancellor's Office of the Community Colleges for a variety of federal compliance and other reporting requirements, having been selected by its Analytic Studies Unit as representative of the demographic characteristics of California Community College students as a whole. As with the selected State University campuses, the Student Aid Commission agreed to this sample of 23 Community Colleges based on assurances of their representativeness by the Chancellor's Office, whose Analytic Studies Unit, along with officials at the 23 colleges, was thereafter responsible for administering the SEARS questionnaires at those colleges.

Of the 64,604 questionnaires distributed, 21,281 were returned for an overall response rate of 32.9 percent. Among the 40 independent colleges and universities, 4,470 of 13,348 questionnaires were returned, for a response rate of 33.5 percent. For the University of California, 5,556 of the 12,698 ques-

tionnaires were returned for a response rate of 43.8 percent. For the State University, the response rate was 35.3 percent, with 5,803 of the 16,450 students returning questionnaires. For the Community Colleges, Lassen College failed to distribute and complete its questionnaires in time for analysis, but 5,452 of the 22,108 Community College questionnaires were returned for a response rate of 24.6 percent. These response rates were comparable to or higher than those for the four previous SEARS surveys, and the number of responses was adequate for analysis as long as analyses were not extended to small subpopulations within the samples and were based on reweighted samples for each segment.

Students responded at different rates in different institutions within each segment as well as among the different segments. For example, among independent institutions, response rates varied from 15.6 percent at Occidental College and 21.2 percent at the University of La Verne to 58.9 percent at California Institute of Technology and 66.0 percent at Pomona College. Among Community Colleges, they ranged from a low of 6.4 percent at Imperial Valley to 61.0 percent at Columbia College.

More important for statewide analyses, different types of students responded at different rates. More full-time students tended to respond than part-time students, as did more older students than young students, more women than men, and whites and Asians more than Blacks or Hispanics. These differential response rates created certain biases in the raw, unweighted respondent data that needed to be adjusted if the respondent data were to reflect accurately the known characteristics of students within each segment as a whole.

WEIGHTING OF THE SEARS DATA

After the SEARS responses were received by the Student Aid Commission, its research staff excluded all non-credit students and all credit students not planning to enroll for the full academic year, and then developed weights to adjust the responses from each segment's students in light of the segment's full-time/part-time and undergraduate/graduate enrollment. The resulting data were reviewed at meetings of both the Student Aid Commission's Research Advisory Committee and the Student Budgets Committee this past September. At these meetings, representatives of independent institutions and of the University of California indicated that this weighting provided a reasonably accurate description of their students' known characteristics. In contrast, representatives of the State University and the Community Colleges raised questions about the ethnic composition and representation of aid recipients in the weighted samples for their segments.

Moreover, California Postsecondary Education Commission staff concluded that while the Student Aid Commission's weighting procedures were appropriate for examining budgets of the full-time students who are typically served by its financial aid programs, they were insufficient for examining how all California undergraduates, including part-time and non-credit students currently meet the costs of attending college. Substantial differences in the characteristics and circumstances of full-time students, part-time students taking six to 11 units, and single course takers made the development of separate

weights for each of these groups essential -- particularly in the Community Colleges, where over one-third of their students enroll for fewer than six units per term. Likewise, non-credit students in the Community Colleges and credit students enrolling for a single term in all segments needed to be included in order to reflect accurately the characteristics of all undergraduates.

Postsecondary Education Commission staff therefore reweighted the SEARS respondent data to reflect the known credit load, sex, ethnic, and age characteristics of all undergraduates in each of the three public segments as of Fall 1982, based on the Commission's enrollment data files, which come from the Chancellor's Office of the Community Colleges for this segment and the systemwide offices of the University of California and the State University. The Commission's computerized files contain enrollment and demographic information on students enrolled in the Fall term for each of the past six years and are used regularly by the Commission in its studies and reports as well as by other segments, the Legislature, the Governor, the federal government, and other states. They include each student's credit load, gender, ethnicity, age, academic level, place of residence, institution last attended, and other individual characteristics, but they lack information on student budgets, financial aid applicant or recipient status, dependency status, or the income of students and their families. (The Postsecondary Education Commission does not have a comparable enrollment data file for all independent institutions that would permit it to weight the SEARS data from the 40 independent colleges and universities as it could for the three public segments.)

Because the 1982 file for the Community Colleges contained incomplete information on State-supported non-credit students, Commission staff used total non-credit enrollment figures provided by the Department of Finance's Population Research Unit. For 51 Community College students whose credit load was unknown, staff assumed that their credit-load patterns were similar to those of the other 99.9 percent of SEARS respondents at Community Colleges, and it followed a similar procedure for the two public four-year segments. (Appendix B compares the original samples and the reweighted samples by selected student characteristics for each of the segments.)

The Student Aid Commission's director of research concurred with these weighting methods, agreeing that they permitted a fuller and more complete analysis of SEARS information for the Postsecondary Commission's research, and plans to use the reweighted data in any subsequent analysis of SEARS data by the Student Aid Commission. In the development of the report, the weighting procedures were also discussed with staff of the Office of the President of the University, the Chancellor's Office of the State University, and that of the Community Colleges.

In sum, the weighting procedures employed by the Commission serve to adjust the SEARS student characteristics to correspond with the known credit load, ethnic, age, and gender characteristics of all undergraduates in the University and State University and of all Community College students, as well as conform to other known characteristics of these students, such as the number of financial aid grant recipients among them. Because independent college representatives had already concluded that the SEARS data as weighted by the

Student Aid Commission generally reflected the basic characteristics of their students, the resulting data taken together provide the most accurate information currently available on how different types of students in each of California's four segments of higher education meet the costs of attending college.

LIMITATIONS OF THE DATA

In using SEARS data as the foundation for the information on student and family incomes, dependency status, student budgets, and other financial characteristics of undergraduates reported in the remaining sections of this report, a number of limitations must be kept in mind.

1. The demographic characteristics of Community College students in the 23 sample schools that the Chancellor's Office selected for study appear for the most part to be statistically representative of the known characteristics of all Community College students in the State, but questions have been raised about whether the financial circumstances and financing patterns of the low-income, minority students attending the colleges in the SEARS sample are comparable to those from inner-city colleges in the major urban districts. Although the available evidence suggests that they are, and thus that the sample remains adequate, Commission staff believes that future surveys of this type should include such colleges.

2. All the answers to the SEARS questionnaires are student responses. In many instances, students are in an excellent position to answer questions about themselves or their characteristics, but in other cases their knowledge is often indirect or incomplete at best. For example, other surveys such as Radner and Miller's 1975 econometric research on demand and supply in higher education suggest that low-income students tend to overestimate their families' income slightly, while middle-income students tend to underestimate their families' income because of their lack of knowledge about non-salary sources of income. Whether this is true or not of SEARS data is not possible to determine, although the SEARS questionnaire sought to discourage students from guessing or misestimating parental income in two ways: (1) by including "I have no idea what my parent's income was" as one of nine possible responses to the parent income question, and (2) by using income intervals for the other eight rather than asking for specific income figures. Commission staff assumes not only that student responses to questions about income are not seriously biased for any portion of the sample or for any segment but also that whatever bias may exist applies to students in all segments and thus does not compromise the validity of intersegmental comparisons. (Comparisons of SEARS income data with other income data are discussed more fully in Appendix C of this report.)

3. Because responses to SEARS income questions are interval responses, staff has computed mean or average values by using the midpoints of the intervals, based on the assumption of a uniform distribution of respondents within each interval. Likewise, in computing median values, the staff has assumed a uniform distribution of responses within the interval containing the median case.

4. Although the interval response categories provide information about differences in the ways aid and non-aid recipients at both similar and different institutions meet the costs of attendance, they cannot answer more specific questions about the operation and effectiveness of particular financial aid programs -- the major focus of the second Commission report in this series, scheduled for completion later this year.

5. The small number of Community College non-credit students and University of California and independent institution part-time students responding to the SEARS questionnaire limit the degree of analysis that can be undertaken using these subsets of the SEARS data even after reweighting.

6. Finally, changes in some 1982-83 interval response categories from past SEARS questionnaires create certain problems in comparing family income distribution over time beyond the complications imposed by general changes in family-income levels. This is particularly true of "student and spouse income" information, because in 1980 the highest available income category was "$5,400 and above," compared to "$32,000 or more" this past year.

After comparing the weighted data to other known information, such as the number of grant recipients and the income distributions in Census data, Commission staff believes that the SEARS sample, correctly weighted to reflect the known age, gender, ethnicity, and credit-load distribution of undergraduate students in each segment, also adequately reflects the distribution of other selected student characteristics in each segment such as parental and student incomes, dependency status, and financial aid applicant and recipient patterns.

REFERENCES

Anderson, Britta. Vermont Guaranteed Student Loan Program: A Study of Defaulted Borrowers in Bermont, 1965 to 1981. Winooski: Vermont Student Assistance Corporation, May 1983.

California Postsecondary Education Commission. California's Participation in Guaranteed Student Loan Programs. Commission Report 84-4. Sacramento: The Commission, January 1984.

--. Meeting the Costs of Attending College: A Staff Analysis of the Demographic Characteristics and Financial Circumstances of California Undergraduates. Commission Report 84-15. Sacramento: The Commission, May 1984.

--. Proposal for a State-Funded Work-Study Program. Commission Report 85-1. Sacramento: The Commission, January 1985a.

--. Policy Options for Cal Grant Programs. Sacramento: The Commission, in preparation, 1985b.

Horch, Dwight. Student Loan Limits: Estimating Manageable Student Loan Limits for the Class Graduating in 1984 and the Class Entering in 1985. Princeton: Educational Testing Service, February 1984.

Ehlenfeldt, Lisa L., and Springfield, Donna. Study of Guaranteed Student Loan Defaults. Richmond: Virginia Educational Loan Authority, March 1984.

Illinois State Scholarship Commission. "Characteristics of Illinois Borrowers Who Default on Illinois Guaranteed Student Loans, 1967-1982." Springfield: The Commission, n.d.

Lee, John B., and Associates. Review of Guaranteed Student Loan Default Rates. Washington, D.C.: John B. Lee and Associates, March 1984.

New York State. Unpublished data on default characteristics, n.d.

National Council of Higher Education Loan Programs. State Agency Survey: Guaranteed Educational Loan Programs, 1983. Albany: New York State Higher Education Services Corporation, April 1984.

Wharton Applied Research Center. A Review of the Guaranteed Student Loan Special Allowance: A Study of Alternatives Incentives for Sources of Private Capital to Participate in Loan Programs for Postsecondary Education. Prepared for the National Commission on Student Financial Assistance. Philadelphia: Wharton Applied Research Center, The Wharton School, University of Pennsylvania, June 30, 1982.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

1020 Twelfth Street, Sacramento, California 95814 Telephone (916) 445-7933

A state agency created in 1974 to assure the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs through statewide planning and coordination.

MEMBERS

Representing the General Public:

Seth P. Brunner, Chairperson	Sacramento
C. Thomas Dean	Long Beach
Seymour M. Farber	San Francisco
Patricia Gandara	Sacramento
Ralph J. Kaplan	Beverly Hills
Roger C. Pettitt	Los Angeles
Sharon N. Skog	Mountain View
Thomas E. Stang, Vice Chairperson	Los Angeles
Stephen P. Teale	Modesto

Representing the Regents of the University of California:

Sheldon W. Andelson	Los Angeles

Representing the Trustees of The California State University:

Claudia H. Hampton	Los Angeles

Representing the Board of Governors of the California Community Colleges:

Peter M. Finnegan	San Francisco

Representing the Independent California Colleges and Universities:

Jean M. Leonard	San Mateo

Representing the Council for Private Postsecondary Educational Institutions:

Darlene M. Laval	Fresno

Representing the State Board of Education:

Angie Papadakis	Rancho Palos Verdes

ALTERNATE REPRESENTATIVES

Representing the Regents of the University of California:

Yori Wada	San Francisco

Representing the Trustees of The California State University:

Celia I. Ballesteros	San Diego

Representing the Board of Governors of the California Community Colleges:

Jane M. Tolmach	Oxnard